

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2022 Series C Bonds is excluded from gross income for federal income tax purposes, subject to certain conditions and assumptions described herein under "Tax Status." Additionally, interest on the 2022 Series C Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. For tax years beginning after December 31, 2022, interest on the 2022 Series C Bonds may affect the federal alternative minimum tax imposed on certain corporations. For further information about the additional tax consequences of holding the 2022 Series C Bonds, see "Tax Status" herein. Furthermore, in the opinion of Bond Counsel, under existing Montana laws, interest on the 2022 Series C Bonds is free from taxation by the State of Montana, or any political subdivision or any other instrumentality of the State of Montana, except for inheritance, estate, gift and corporate license taxes.

NEW ISSUE – Book-Entry Only

Ratings:
Moody's: "Aa1"
S&P: "AA+"
See "Ratings" herein

\$32,000,000*
MONTANA BOARD OF HOUSING
Single Family Mortgage Bonds
2022 Series C (Non-AMT)

Dated: Date of Delivery

Due: See inside front cover

This cover page contains selected information for quick reference only. It is not a summary of all relevant information. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms are defined inside.

The 2022 Series C Bonds are issuable only as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the 2022 Series C Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2022 Series C Bonds purchased.

Interest on the 2022 Series C Bonds, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2023, and principal on the 2022 Series C Bonds are payable by Wilmington Trust, National Association, as trustee, to DTC, which will be responsible for remitting such principal and interest to its Participants, which will in turn be responsible for remitting such principal and interest to the Beneficial Owners of the 2022 Series C Bonds, as described under the caption "Description of the 2022 Series C Bonds – Book-Entry Bonds" herein.

The 2022 Series C Bonds are subject to redemption prior to maturity, including special redemption at par, under certain circumstances, as more fully described herein. The 2022 Series C Bonds are, among other things, subject to redemption at par from Prepayments, scheduled principal payments on Mortgage Loans and Mortgage-Backed Securities and excess Revenues allocated to any series of Bonds. See "Description of the 2022 Series C Bonds – Special Redemption" herein.

MATURITY SCHEDULE LOCATED ON INSIDE FRONT COVER

The 2022 Series C Bonds are general obligations of the Board, secured by and payable from moneys pledged for the payment thereof under the Indenture, including all revenues, assets and moneys of the Board not otherwise pledged to the holders of particular notes or bonds of the Board. Neither the faith and credit nor the taxing power of the State of Montana or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the 2022 Series C Bonds. The State of Montana is not liable for the 2022 Series C Bonds, and the 2022 Series C Bonds are not a debt of the State of Montana. The Board has no taxing power.

The 2022 Series C Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Kutak Rock LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel Orrick, Herrington & Sutcliffe LLP, San Francisco, California. It is expected that definitive 2022 Series C Bonds will be available for delivery in New York, New York on or about December __, 2022.

RBC Capital Markets

BofA Securities

D.A. Davidson & Co.

Raymond James

November __, 2022

* Preliminary, subject to change.

MATURITY SCHEDULE

\$6,065,000* Serial Bonds at ___%

| Due* | Principal Amount* | Interest Rate | CUSIP† | Due* | Principal Amount* | Interest Rate | CUSIP† |
|--------------|-------------------|---------------|--------|--------------|-------------------|---------------|--------|
| Dec. 1, 2023 | \$250,000 | % | | Dec. 1, 2029 | \$205,000 | % | |
| June 1, 2024 | 280,000 | | | June 1, 2030 | 215,000 | | |
| Dec. 1, 2024 | 280,000 | | | Dec. 1, 2030 | 220,000 | | |
| June 1, 2025 | 285,000 | | | June 1, 2031 | 225,000 | | |
| Dec. 1, 2025 | 290,000 | | | Dec. 1, 2031 | 225,000 | | |
| June 1, 2026 | 295,000 | | | June 1, 2032 | 230,000 | | |
| Dec. 1, 2026 | 300,000 | | | Dec. 1, 2032 | 240,000 | | |
| June 1, 2027 | 305,000 | | | June 1, 2033 | 250,000 | | |
| Dec. 1, 2027 | 310,000 | | | Dec. 1, 2033 | 260,000 | | |
| June 1, 2028 | 320,000 | | | June 1, 2034 | 270,000 | | |
| Dec. 1, 2028 | 325,000 | | | Dec. 1, 2034 | 280,000 | | |
| June 1, 2029 | 205,000 | | | | | | |

\$1,900,000* ___% Term Bonds due December 1, 2037* at ___% CUSIP† _____

\$3,490,000* ___% Term Bonds due December 1, 2042* at ___% CUSIP† _____

\$4,355,000* ___% Term Bonds due December 1, 2047* at ___% CUSIP† _____

\$5,970,000* ___% Term Bonds due December 1, 2052* at ___% CUSIP† _____

\$10,220,000* ___% Term Bonds due June 1, 2053* at ___% CUSIP† _____ (“PAC Bonds”)

* Preliminary, subject to change.

† CUSIP data is provided by CUSIP Service Bureau, managed for the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create or maintain a database of CUSIP descriptions or numbers and is not intended to create and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. The CUSIP numbers have been assigned by an organization not affiliated with the Board and are included for the convenience of the holders of the 2022 Series C Bonds. Neither the Board nor the Underwriters are responsible for the selection or use of the CUSIP numbers, nor is any representation made as to their correctness on the 2022 Series C Bonds or as indicated above.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or the completeness of such information. No dealer, broker, salesperson or other person has been authorized by the Board or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2022 Series C Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board or any other parties described herein since the date as of which such information is presented.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2022 Series C Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

of

MONTANA BOARD OF HOUSING

Relating to its

\$32,000,000*

**Single Family Mortgage Bonds,
2022 Series C (Non-AMT)**

INTRODUCTION

This Official Statement (which includes the cover page and appendices hereto) provides certain information in connection with the issuance and sale by the Montana Board of Housing (the “Board”) of its Single Family Mortgage Bonds, 2022 Series C (Non-AMT), in the aggregate principal amount of \$32,000,000* (the “2022 Series C Bonds”). The 2022 Series C Bonds will be issued pursuant to the Montana Housing Act of 1975, as amended (the “Act”). The 2022 Series C Bonds will be issued in order to acquire Additional Mortgage Loans (defined below).

The 2022 Series C Bonds will be issued under and secured by a Trust Indenture, dated March 10, 1977 (Amended and Restated as of May 1, 1997) (the “Trust Indenture”), between the Board and Wilmington Trust, National Association (as successor trustee) (the “Trustee”), as amended and supplemented, and a 2022 Series C Supplemental Trust Indenture, dated as of December 1, 2022 (the “Supplemental Trust Indenture”), between the Board and the Trustee. The Trust Indenture and the Supplemental Trust Indenture are referred to herein collectively as the “Indenture.” Bonds issued under the Trust Indenture are equally and ratably secured by the pledges and covenants contained therein, and all such bonds, including the 2022 Series C Bonds, are referred to herein as the “Bonds.” The Board has heretofore issued the following Series of Bonds under the Trust Indenture:

* Preliminary, subject to change.

| <u>Series</u> | <u>Principal Amount Issued</u> | <u>Principal Amount Outstanding as of September 1, 2022</u> |
|---------------|------------------------------------|---|
| 1977 Series A | \$ 21,470,000 | -0- |
| 1977 Series B | 35,060,000 | -0- |
| 1978 Series A | 13,600,000 | -0- |
| 1987 Series A | 20,000,000 | -0- |
| 1987 Series B | 20,000,000 | -0- |
| 1988 Series A | 19,998,793 | -0- |
| 1997 Series A | 91,360,000 | -0- |
| 1999 Series A | 60,000,000 | -0- |
| 2000 Series A | 87,695,000 | -0- |
| 2000 Series B | 71,940,000 | -0- |
| 2001 Series A | 71,000,000 | -0- |
| 2002 Series A | 39,000,000 | -0- |
| 2002 Series B | 52,190,000 | -0- |
| 2005 Series A | 93,785,000 | -0- |
| 2006 Series A | 50,560,000 | -0- |
| 2006 Series B | 72,000,000 | -0- |
| 2006 Series C | 70,805,000 | -0- |
| 2007 Series A | 86,015,000 | -0- |
| 2007 Series B | 83,090,000 | -0- |
| 2007 Series C | 50,600,000 | -0- |
| 2007 Series D | 56,600,000 | -0- |
| 2015 Series B | 64,400,000 | \$17,900,000 |
| 2016 Series A | 64,645,000 | 34,165,000 |
| 2017 Series A | 41,900,000 | 16,920,000 |
| 2017 Series B | 42,600,000 | 20,530,000 |
| 2018 Series B | 50,000,000 | 21,025,000 |
| 2019 Series B | 30,000,000 | 18,075,000 |
| 2020 Series A | 42,425,000 | 29,570,000 |
| 2020 Series B | 37,200,000 | 27,355,000 |
| 2020 Series C | 30,000,000 | 27,665,000 |
| 2021 Series A | 43,410,000 | 39,775,000 |
| 2021 Series B | 32,000,000 | 31,610,000 |
| 2022 Series A | 32,000,000 | 32,000,000 |
| 2022 Series B | 32,000,000 | 32,000,000 |
| | \$1,709,348,793 | \$348,590,000 |

The Board may issue additional Series of Bonds under the Trust Indenture. See “Security For and Sources of Payment of the Bonds -- Additional Bonds.”

The global outbreak of COVID-19 and measures taken by the Federal, state and local governments in response, are altering the behavior of individuals and businesses in a manner that may have negative effects on economic activity across the country and in the State. See “MONTANA BOARD OF HOUSING – Operations Disruption Risk; COVID-19” for descriptions of certain of these measures and the Board’s business continuity plan.

All capitalized terms used in this Official Statement that are not defined herein but are defined in the Indenture shall have the respective meanings set forth in the Indenture (see “Summary of Certain Provisions of the Indenture -- Definitions of Certain Terms”). The references to and summaries and descriptions of the Act, the Indenture, the Bonds and the Program, and the other statutes, instruments and documents which are included or are referred to in this Official Statement do not purport to be

comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by references to the appropriate statute, instrument, or document.

The mortgage loans presently held under the Trust Indenture (the “Existing Mortgage Loans”) consist of 20-year and 30-year fixed rate mortgage loans insured by the Federal Housing Administration (“FHA”), guaranteed by the Department of Veterans Affairs (“VA”), the United States Department of Agriculture, Rural Development (“USDA-RD”) or the United States Department of Housing and Urban Development (“HUD”) or insured by a policy of private mortgage guaranty insurance (“PMI”) issued by a provider of private mortgage guaranty insurance approved by the Board (a “PMI Provider”) or are conventional loans with a loan-to-value ratio below 80% or special program loans held in the Special Reserve Fund. The Board is not presently purchasing PMI insured mortgage loans. Genworth Mortgage Insurance Corporation and Mortgage Guaranty Insurance Corporation are the PMI Providers for the PMI insured Mortgage Loans held under the Indenture. See “Existing Mortgage Loan Portfolio” and “Appendix A -- Insurance, Guarantees and Foreclosure.” The Board is issuing the 2022 Series C Bonds in furtherance of its Single Family Program (the “Program”) to provide financing for the purchase of housing by lower income persons and families within the State of Montana (the “State”). Under the Program, the Board will use amounts made available by the issuance of the 2022 Series C Bonds to purchase or reimburse itself for the purchase of approximately \$30,770,000* aggregate principal amount of additional fixed-rate mortgage loans consisting of first liens on single family, owner-occupied housing, including participations in such mortgage loans (“Additional Mortgage Loans”). The Board will use a portion of the amounts made available from the issuance of the 2022 Series C Bonds to purchase or reimburse itself for the purchase of an additional approximately \$920,000* aggregate principal amount of loans made under its down payment assistance program (“Down Payment Assistance Loans”) and its various set aside programs, which will also constitute Additional Mortgage Loans. The Down Payment Assistance Loans will be fixed-rate mortgage loans consisting of second liens on single family owner-occupied housing and are expected to amortize over a period of no longer than thirty years. The Board’s current Mortgage Purchase and Servicing Guide and related program documents (the “Guide”) require that Additional Mortgage Loans purchased with amounts made available by the issuance of the 2022 Series C Bonds (other than Down Payment Assistance Loans) be insured by FHA or guaranteed by VA, USDA-RD or HUD or have a loan-to-value ratio below 80%. Additional Mortgage Loans insured by PMI are not presently permitted. The Trust Indenture provides that the Board may also purchase mortgage pass-through certificates guaranteed as to timely payment of principal and interest by Fannie Mae, Freddie Mac or the Government National Mortgage Association, backed by mortgage loans (“Mortgage-Backed Securities”). Mortgage loans backing Mortgage-Backed Securities are not required to be insured by FHA or guaranteed by VA, USDA-RD or HUD. The Board may also purchase Additional Mortgage Loans and Mortgage-Backed Securities from recycled moneys under the Program or from the proceeds of additional Bonds issued under the Indenture. See “Security For and Sources of Payment of the Bonds,” “Single Family Program” and “Appendix A -- Insurance, Guarantees and Foreclosure.” The Existing Mortgage Loans and the Additional Mortgage Loans are referred to herein collectively as the “Mortgage Loans.”

The Mortgage Loans financed by the 2022 Series C Bonds must comply with the provisions of Section 143 of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations promulgated thereunder by the Internal Revenue Service (collectively, “Section 143”), as well as certain other provisions of the Code. The Indenture and the Guide set forth certain procedures to be followed and conditions to be met by the Board and Mortgage Lenders to comply with the requirements of Section 143. See “Single Family Program -- Mortgage Loan Eligibility Requirements.” The Indenture also contains covenants which, if complied with, will result in compliance with the applicable provisions of the Code. If such requirements are not met, the interest on the 2022 Series C Bonds may be includable in the gross

* Preliminary, subject to change.

income of the owners thereof for federal income tax purposes from the date of issuance of the 2022 Series C Bonds. See “Tax Status.”

The Bonds are general obligations of the Board payable from any of its revenues, assets or moneys, subject only to agreements previously or hereafter made with holders of any notes or bonds pledging particular revenues, assets or moneys. All amounts received with respect to Mortgage Loans or Mortgage-Backed Securities, interest or income received on investments of moneys held in any fund or account pursuant to the Indenture (other than the Special Reserve Fund, except to the extent restricted by a Supplemental Indenture), but not Escrow Payments (as defined below), servicing fees or, unless otherwise provided in a Supplemental Indenture, commitment fees and financing fees charged to the Lenders by the Board (collectively, the “Revenues”), are pledged to secure the payment of the Bonds. “Escrow Payments” mean any payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans, and any payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed. The Bonds are also secured by a pledge and assignment of the rights and interest of the Board in the Mortgage Loans and the Mortgage-Backed Securities and a pledge of amounts on deposit in the accounts established under the Indenture, including the Debt Service Reserve Fund, but excluding any rebate account.

The Indenture permits the Board, upon compliance with certain cash flow and asset tests, to withdraw certain pledged amounts free and clear of the lien of the Indenture. The Indenture also permits the Board to withdraw amounts from and to create a lien to secure other obligations of the Board on amounts held in the Special Reserve Fund, except to the extent restricted by a Supplemental Indenture.

Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds. The State is not liable for the Bonds, and the Bonds are not a debt of the State. The Board has no taxing power.

In addition to the Program, the Board is authorized under the Act to engage in certain other activities. See “The Montana Board of Housing -- Operations to Date” for a description of the Board’s single family and multi-family programs implemented prior to the date hereof. The proceeds of the Bonds may not be used to finance any activities of the Board other than the Program.

CONTINUING DISCLOSURE

The Board has covenanted for the benefit of the 2022 Series C Bondholders or beneficial owners of the 2022 Series C Bonds to provide certain financial information and operating data relating to the Board not later than 180 days after the end of the Board’s fiscal year and to provide notices of the occurrence of certain enumerated events no later than ten business days after the occurrence of any such event to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report and the notices of material events is summarized under “Summary of Certain Provisions of the Continuing Disclosure Agreement.” These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

THE MONTANA BOARD OF HOUSING

The Montana Board of Housing, created by the Act, is an agency of the State and operates within the Housing Division of the Department of Commerce of the State for administrative purposes. The legislature, in establishing the Board, found that there is a shortage in the State of decent, safe and sanitary

housing which is within the financial capabilities of lower income persons and families. To alleviate the high cost of housing for these persons, the legislature found that it is essential that additional public moneys be made available through the issuance of revenue bonds to assist private enterprise and governmental agencies in meeting critical housing needs.

The Act empowers the Board, among other things, to: (i) issue bonds and notes up to a maximum principal amount outstanding of \$1,500,000,000, (ii) make loans to lending institutions under terms and conditions requiring the proceeds to be used by the lending institution for the making of mortgage loans for housing developments in the State to persons and families of lower income, (iii) invest in, purchase or make commitments to purchase mortgages and take assignments from lending institutions of notes, mortgages, and other securities evidencing loans for the construction, purchase, rehabilitation, leasing or refinancing of housing developments for persons and families of lower income, (iv) make mortgage loans to housing sponsors to finance the construction or rehabilitation of housing developments designed and planned for occupancy by persons and families of lower income in the State, and (v) make mortgage loans to persons and families of lower income for housing development when the Board determines that mortgage loans are not otherwise available from private lenders upon reasonably equivalent terms and conditions.

The Montana Supreme Court upheld the constitutionality of the Act in Huber v. Groff, 558 P.2d 1124 (1976). The Court in that case determined generally that (i) the Act was enacted to accomplish a public purpose, (ii) bonds issued by the Board are not debts of the State for constitutional purposes, and (iii) moneys of the Board are not subject to the State's unified investment program but are subject to the restrictions of a trust indenture. Additionally, the Act explicitly restricts the temporary investment of moneys of the Board to investments permitted by law for State treasury funds.

Under the Act, the Board does not receive appropriations from the State general fund to pay for the Board's operating expenses. The Board is not required to submit its budget to the State Legislature. However, budget information must be submitted to the Governor's Office of Budget and Program Planning, which will review operations and charges, projected fund balances, and retained earnings and submit a report to the Legislature and the Legislature must approve the Board's fees. The Board is required to deposit with the State Treasurer the amount budgeted under each of the Board's indentures to be used to pay related program expenses for such fiscal year, all subject to the continuing pledge of such amounts (until used) to the respective bondholders. The Board's practice generally is to pay costs allocable to particular bond indentures from funds available for such purpose under such indentures. The Board is currently funding approximately 60% of its single family housing program general and administrative costs from amounts available under the Trust Indenture.

The powers of the Board are vested by the Act in seven members who are appointed by the Governor subject to confirmation by the State Senate. The term of office for a majority of the members coincides with the four-year term of office of the Governor, and the other members serve four-year terms expiring in the middle of the Governor's term. The members of the Board elect the Chair of the Board and such other officers as they may determine. Each member of the Board serves until his or her successor is appointed. The appointment of each member of the Board is subject to the confirmation of the Senate, but the member has all powers of the office upon assuming office. If the Senate does not confirm the appointment of a member of the Board, the Governor appoints a new member to serve for the remainder of the member's term. The members and officers of the Board, the expiration dates of their respective terms of office and information provided by the members and officers concerning their current or prior occupations are as follows:

| <u>Name</u> | <u>Position</u> | <u>Term Expires</u> | | <u>Occupation</u> |
|----------------|-----------------------------|---------------------|--|---|
| | | <u>January</u> | | |
| Sheila Rice | Board Member and Chair | 2023 | | Retired Executive Director, NeighborWorks Great Falls |
| Adam Hertz | Board Member and Secretary | 2025 | | Real Estate Agent & Developer, Missoula |
| Jeanette McKee | Board Member | 2023 | | Real Estate Agent, Hamilton |
| Bruce Posey | Board Member and Vice-Chair | 2025 | | Retired Mortgage Banker, Billings |
| Cari Yturri | Board Member | 2025 | | Retired Auto Dealer, Great Falls |
| Tonya Plummer | Board Member | 2023 | | Executive Director, Montana Native Growth Fund |
| John Wright | Board Member | 2025 | | Lawyer, Billings |

The staff of the Board consists of 37 full-time equivalents with the following executive officers:

CHERYL D. COHEN, Executive Director and Board Treasurer, joined the Board staff in October 2018, as Operations Director. Ms. Cohen was appointed Executive Director and Board Treasurer in May 2020. Ms. Cohen previously served over 8 years as a Community Development Specialist and Senior Community Development Specialist with the Seattle Office of Housing. She has over 15 years of affordable housing compliance, property/asset management, and operations experience in the public and non-profit sectors. Ms. Cohen is certified in low income housing tax credit compliance and is a Certified Specialist in HUD Occupancy. She has a B.A. in Political Science from the University of Washington.

GINGER PFANKUCH, Accounting and Finance Manager, joined the Board staff in July 2015. Ms. Pfankuch previously served as an accountant with the State Financial Services Division during which time she assisted in the preparation of the Comprehensive Annual Financial Statement for the State of Montana. She has a B.S. in Accounting from the University of Montana and is a Certified Public Accountant.

VICTORIA BAUER, Home Ownership Program Manager, joined the Board staff in July 2001. Prior to being promoted to program manager in September 2011, Ms. Bauer served as Home Ownership Program Specialist, Financial Specialist, and as Assistant Accounting and Finance Manager. Ms. Bauer has an A.A.S. in Accounting from the University of Montana-Helena College of Technology and is a Certified Housing Development Professional.

MARY K. PALKOVICH, Servicing Program Manager, joined the Board staff in June 2015. Prior to joining the Board staff, Ms. Palkovich served for 13 years at Opportunity Bank, as a Mortgage Loan Processor, as a Secondary Market Specialist, and, for the past 10 years, the Loss Mitigation Specialist/Officer. She has extensive training and continuing education in collections, bankruptcies, credit reporting, non-performing loans, real estate owned properties, and loss mitigation including conventional and government programs.

JASON HANSON, Multifamily Program Manager, joined the Board staff in September 2022. Prior to joining the Board, Mr. Hanson owned a real estate appraisal company for 9 years. He also has past work experience in mortgage lending, banking, financial consulting, and real estate sales. Mr. Hanson has a Bachelor of Science in Business Administration from Dickinson State University.

JOE DEFILIPPIS, Operations Manager, joined the Board staff in August 2020. Mr. DeFilippis worked nearly 19 years for the Secretary of State's office where he served in several capacities including Operations Supervisor, Manager, and Deputy in various divisions within the Secretary of State's office. He assisted with streamlining processes to improve efficiency for staff, oversaw the implementation of various software programs and analyzed and updated requirements within Business Services, Uniform Commercial Code Liens, Notary and Apostilles, and Records and Information Management. Joe has a Bachelor of Science in Business Management and a Masters in Business Administration from the University of Phoenix.

The Board receives support services from the State Department of Commerce. Additional personnel may be employed as determined by the Board in conjunction with the Department of Commerce.

The Board's general counsel is Jackson, Murdo & Grant, P.C., Helena, Montana. The Legislative Audit Division serves as the Board's independent auditor.

The Board's office is located at 301 South Park Avenue, Suite 240, Helena, Montana 59601 and the Board's telephone number is (406) 841-2840. The Board's website is: <http://housing.mt.gov>. Information on the Board's website is not a part of this Official Statement.

Operations to Date

Existing Indebtedness.

As of September 1, 2022, the Board had issued \$4,147,785,800 aggregate principal amount of single family mortgage revenue bonds, \$35,945,000 aggregate principal amount of multifamily mortgage revenue bonds, \$369,808,996 aggregate principal amount of conduit multifamily housing revenue bonds and obligations, \$1,625,000 aggregate principal amount of multifamily general obligation bonds, \$2,000,000 aggregate principal amount of single family mortgage revenue bonds (homeownership network pool program), \$497,942 aggregate principal amount of general obligation bonds (teacher's program) and \$8,940,000 aggregate principal amount of construction loan notes. As of September 1, 2022, \$464,785,000 aggregate principal amount of the Board's single family mortgage revenue bonds, \$269,321,487 aggregate principal amount of conduit multifamily housing revenue bonds and obligations, \$86,366 aggregate principal amount of the Board's general obligation bonds (teacher's program) and \$135,000 aggregate principal amount of multifamily general obligation bonds remained outstanding (including accrued compounded interest and excluding bonds issued or redeemed after such date). All of the outstanding bonds issued by the Board (other than the single family mortgage revenue bonds (homeownership network pool) and the conduit multifamily housing revenue bonds) are general obligations of the Board payable from the revenues, assets and moneys pledged thereto and from any of the Board's other revenues, assets and moneys not specifically pledged to secure other notes or bonds of the Board. See Note 8 to the audited financial statements of the Board included in Appendix C for a detailed list of the Board's outstanding indebtedness as of June 30, 2021.

Funds Available to Finance Mortgage Loans.

On June 23, 2022, the Board issued \$32,000,000 aggregate principal amount of its Montana Board of Housing Single Family Mortgage Bonds, 2022 Series B (the "2022 Series B Bonds"), thereby making amounts available to purchase mortgage loans. The Board began to accept loan reservations on April 1, 2022 for mortgage loans to be purchased with amounts made available by the issuance of the 2022 Series B Bonds. As of November 1, 2022, \$24,738,687 aggregate principal amount of mortgage loans (160 mortgage loans) at interest rates of 4.00% to 5.375% per annum had been purchased by the Board and the

Board had received reservations for individual borrowers for an additional \$7,385,067 aggregate principal amount of mortgage loans, leaving no funds unreserved.

On September 23, 2022, the Board began to accept reservations for mortgage loans to be purchased with amounts to be made available by the issuance of the 2022 Series C Bonds. As of November 1, 2022, the Board had received reservations for individual borrowers for \$12,119,176 aggregate principal amount of mortgage loans.

In addition to the 2022 Series C Bond proceeds, the Board has set aside approximately \$9,880,022 of excess or recyclable funds under the Board's single family program indentures to purchase mortgage loans made pursuant to special programs for single family housing, as of June 30, 2022. These loans are generally at reduced interest rates or are uninsured with a LTV under 80%. The special programs for single family housing for which the Board has set-aside funds include the 80% Combined Program, Bond Advantage DPA Program, MBOH Plus DPA Program, Foreclosure Prevention Program, Disabled Access Affordable Homeownership Program, Lot Refinance Program, Habitat for Humanity, the First Mortgage for Down Payment Assistance Pool, Dream Makers Homebuyer Assistance Program, Section 184 Indian Home Loan Guarantee Program, Community Land Trust Program and the Reverse Annuity Mortgage Program. The Board may also reserve amounts for additional special programs. The Board purchased, from various sources, the following aggregate principal amount of mortgage loans for special programs:

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>Approximate Aggregate</u> <u>Principal Amount Purchased</u> |
|--|---|
| 2022 | \$13,121,827 |
| 2021 | 6,129,542 |
| 2020 | 13,240,673 |
| 2019 | 24,372,032 |
| 2018 | 12,796,864 |

As of November 1, 2022, the Board had purchased approximately \$3,740,178 aggregate principal amount of mortgage loans for special programs in the fiscal year ending June 30, 2023.

The Board has not redeemed single family housing bonds from unexpended proceeds in a significant amount (over \$250,000) since 1993.

Delinquency Experience.

The delinquencies experienced with respect to the Board’s Single Family Programs at the end of each quarter, beginning in 2018, are as set forth below:

**MONTANA BOARD OF HOUSING
DELINQUENCY STATISTICS**

(All Single Family Programs)†

| QUARTER | NUMBER OF LOANS SERVICED AT QUARTER END* | NUMBER OF LOANS DELINQUENT** | % OF LOANS | | |
|----------|---|---------------------------------|--------------------------|--------------------------|------------------------|
| | | | DELINQUENT 30-59 DAYS | DELINQUENT 60-89 DAYS | DELINQUENT 90+ DAYS |
| I-2018 | 5,108 | 136 (2.66%) | 1.23 | 0.55 | 0.88 |
| II-2018 | 5,185 | 152 (2.92%) | 1.74 | 0.62 | 0.58 |
| III-2018 | 5,365 | 163 (3.04%) | 1.70 | 0.78 | 0.56 |
| IV-2018 | 5,517 | 163 (2.95%) | 1.58 | 0.69 | 0.69 |
| I-2019 | 5,604 | 120 (2.14%) | 1.11 | 0.37 | 0.66 |
| II-2019 | 5,550 | 155 (2.79%) | 1.64 | 0.61 | 0.54 |
| III-2019 | 5,611 | 141 (2.51%) | 1.41 | 0.71 | 0.39 |
| IV-2019 | 5,687 | 159 (2.80%) | 1.51 | 0.62 | 0.67 |
| I-2020 | 5,728 | 170 (2.97%) | 1.57 | 0.45 | 0.94 |
| II-2020 | 5,712 | 258 (4.52%) | 1.77 | 1.02 | 1.73 |
| III-2020 | 5,667 | 320 (5.65%) | 1.61 | 0.92 | 3.13 |
| IV-2020 | 5,564 | 353 (6.34%) | 1.42 | 0.99 | 3.94 |
| I-2021 | 5,456 | 330 (6.05%) | 1.10 | 0.59 | 4.36 |
| II-2021 | 5,328 | 321 (6.02%) | 1.01 | 0.75 | 4.26 |
| III-2021 | 5,190 | 303 (5.84%) | 1.14 | 0.91 | 3.80 |
| IV-2021 | 5,113 | 262 (5.12%) | 1.08 | 0.92 | 3.13 |
| I-2022 | 5,091 | 207 (4.07%) | 1.10 | 0.69 | 2.28 |
| II-2022 | 5,051 | 235 (4.65%) | 1.68 | 0.69 | 2.28 |

* Quarters end on March 31, June 30, September 30 and December 31. Data does not include mortgage loans that are in foreclosure post sale. As of June 30, 2022, 21 mortgage loans were in foreclosure post-sale.

** Data does not include loans in possible foreclosure. As of June 30, 2022, 17 mortgage loans were in possible foreclosure and the Board had 2 foreclosed properties in inventory. Data also includes loans that are not considered “delinquent” under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). See “The Montana Board of Housing—Operations Disruption Risk; COVID-19” below and “Appendix A -- Insurance, Guarantees and Foreclosure.”

† Data does not include mortgage loans backing mortgage-backed securities.

As of June 30, 2022, the Board had, since its inception and with respect to all of its single family mortgage programs, purchased 45,287 mortgage loans. Of the mortgage loans outstanding (other

than mortgage loans backing mortgage-backed securities) on June 30, 2022, 2,649 (52.45%) were insured by FHA, 317 (6.28%) were guaranteed by VA, 920 (18.21%) were guaranteed by USDA-RD, 38 (0.75%) were guaranteed by HUD, 36 (0.71%) were insured by PMI, 201 (3.98%) were uninsured because the loan-to-value ratio was below 80% when originated and 890 (17.62%) were uninsured second mortgage loans.

Single Family Housing Programs

In 1977, the Board commenced financing the operations of its single family program through the issuance of bonds secured under the Trust Indenture. Thirty-four series of bonds in the aggregate initial principal amount of \$1,709,348,793 have been issued under the Trust Indenture. As of September 1, 2022, bonds issued under the Trust Indenture in the aggregate principal amount of \$348,590,000 remained outstanding.

The Board has also issued thirty-two series of bonds in the aggregate principal amount of \$1,793,547,006 to finance its single family program under a trust indenture, dated as of August 16, 1979 (the "SF2 Trust Indenture"). As of September 1, 2022, bonds issued under the SF2 Trust Indenture in the aggregate principal amount of \$102,530,000 remained outstanding.

The Board has also issued nine series of bonds in the aggregate principal amount of \$260,855,000 under a trust indenture, dated as of December 1, 2009, as amended and supplemented (the "Homeownership Bond Indenture"). As of September 1, 2022, bonds issued under the Homeownership Bond Indenture in the aggregate principal amount of \$13,665,000 remained outstanding.

The Board issues mortgage credit certificates at a certificate credit rate of 20% under its Mortgage Credit Certificate Program. In fiscal year ended June 30, 2022, the Board issued mortgage credits for \$10,880,872 aggregate principal amount of mortgage loans. As of June 30, 2022, \$16,713,522 principal amount from the Board's most recent mortgage credit certificate election remained unreserved.

The Board makes reverse annuity loans to lower income elderly persons through its Reverse Annuity Mortgage Program, which the Board funds from its Housing Trust Fund.

Multifamily Housing Programs

The Board finances multifamily housing units in the State through the issuance of bonds and privately placed obligations, as well as through other programs, including participation in HUD Risk Sharing Programs. A portion of the Board's multifamily housing bonds are general obligations of the Board and a portion are special limited obligations of the Board. See Appendix C – Board Financial Statements, Notes 8 and 13.

The Board also administers the federal Low Income Housing Tax Credit program in the State. The Board allocates the federal tax credits and is required to conduct periodic inspections of projects receiving federal tax credits to assure compliance with the lower income tenant requirements.

Operations Disruption Risk

COVID-19

Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the Board's ability to conduct its business. A prolonged disruption in the Board's operations could have an adverse effect on the Board's financial condition and results of operations. To plan for and mitigate the impact such

an event may have on its operations, the Board has developed a Montana Board of Housing Business Continuity Plan and a Housing Division Business Continuity Plan (collectively, the “Plan”). The Plan is designed to (i) evaluate the impact of such an event on the Board’s business functions and processes, (ii) provide a priority ranking of these functions and processes to assist the Board’s leadership in allocating recovery resources based upon such priorities, and (iii) provide procedures to protect, restore or recover, as the case may be, the Board’s business functions and processes. No assurances can be given that the Board’s efforts to mitigate the effects of an emergency or other event will be successful in preventing any and all disruptions to its operations in the event of an emergency.

One such external event is the global outbreak of COVID-19 (“COVID-19”), a respiratory disease declared in 2020 to be a pandemic (the “Pandemic”) by the World Health Organization and an emergency by federal and state governments. Since the start of the Pandemic, Presidential administrations, Congress, the Federal Reserve, HUD/FHA (including GNMA), the Federal Housing Finance Agency (including Fannie Mae and Freddie Mac), USDA Rural Development, VA, the Centers for Disease Control, and the Consumer Financial Protection Bureau, along with the State, have enacted legislation and/or issued orders or directives (collectively, “Governmental Actions”) to alleviate the effects of COVID-19 on homeowners, renters, landlords, servicers and lenders. Governmental Actions have included loan forbearance directives, moratoriums on foreclosures and/or evictions, loan modification directives, loan servicing assistance, rental assistance, and homeownership loan assistance. Such legislation and/or orders have been extended and/or modified, and others have expired or been enjoined. While it is generally expected that new legislation may be enacted, new orders may be issued, and existing and new orders may be extended, modified, litigated, or allowed to expire, no guarantee can be made with regards to the duration and/or effectiveness of any such legislation or orders.

The American Rescue Plan Act (ARPA) passed by Congress and signed by the president contains \$9.961 billion nationwide for a Homeowner Assistance Fund. The funding will help homeowners across the country remain in their homes. The Montana Homeownership Assistance Fund (MHAF) includes \$50 million in federal funding allocated by Congress to the State of Montana through ARPA and appropriated through the Department of Commerce through the passage of HB 632. The MHAF program is administered by the Board and funds are available to a homeowner with respect to qualified expenses and hardship related to the homeowner’s primary residence.

For the period from March 1, 2020 through June 30, 2022, the Board received 511 requests for forbearance with respect to Mortgage Loans held under all Single Family Programs. As of June 30, 2022, forbearance remained in effect for 94 of such Existing Mortgage Loans held under All Single Family Programs (representing approximately 2.51% of Existing Mortgage Loans held under all Single Family Programs, by principal amount) and foreclosure actions will need to be initiated or restarted for 8 Existing Mortgage Loans held under all Single Family Programs (representing 0.19% of Existing Mortgage Loans held under all Single Family Programs, by principal amount).

For the period from March 1, 2020 through June 30, 2022, the Board received 310 requests for forbearance with respect to Mortgage Loans held under the Indenture. As of June 30, 2022, forbearance remained in effect for 67 of such Mortgage Loans (representing approximately 1.89% of Mortgage Loans held under the Indenture, by principal amount) and foreclosure actions will need to be initiated or restarted for 7 Mortgage Loans held under the Indenture (representing approximately 0.18% of Mortgage Loans held under the Indenture, by principal amount). The Board may approve additional forbearance requests during the Pandemic.

The Governmental Actions, and other future federal, state, and local measures may have both adverse and positive effects on the Board’s operations, financial condition and bond ratings. In addition, unemployment in the State, business closures and/or restrictions in the State and market

fluctuation during the Pandemic may have an adverse effect on existing and future loans in the Board's portfolio. The Board continues to review the possible impacts of these various actions and events on its operations, financial condition, and bond ratings.

The Board cannot predict (i) the duration or extent of the COVID-19 pandemic or any other outbreak emergency; (ii) the duration or expansion of any foreclosure or eviction moratorium affecting the Board's ability to foreclose and collect on delinquent mortgage loans; (iii) the number of mortgage loans that will be in default as a result of the COVID-19 pandemic and subsequent federal, State and local responses thereto; (iv) whether and to what extent the COVID-19 pandemic or other outbreak or emergency may disrupt the local or global economy, manufacturing, or supply chain, or whether any such disruption may adversely impact the Board or its operations; (v) whether or to what extent the Board or other government agencies may provide or require additional deferrals, forbearances, adjustments, or other changes to payments on mortgage loans; or (vi) the effect of the COVID-19 Pandemic on the State budget, or whether any such effect may adversely impact the Board or its operations. The COVID-19 pandemic and resulting business and market disruptions may have an adverse impact on the Board's operations, financial condition or bond ratings to an extent that may be material.

Cybersecurity

The Board is dependent on electronic information technology systems to deliver high quality, coordinated and cost efficient services. These systems may contain sensitive information or support critical operational functions which may be valued for unauthorized purposes. As a result, the electronic systems and networks of the Board may be targets of cyberattack. Because the Board operates within the State of Montana Department of Commerce, the State has taken, and continues to take, measures to protect its information technology systems, and the private, confidential information that those systems may contain, against cyberattack. While the State employs information technology professionals and utilizes operational safeguards that are tested periodically, no assurance can be given that such measures will protect the Board against all cybersecurity threats or attacks.

FINANCING PLAN*

The proceeds of the 2022 Series C Bonds will be used to finance Additional Mortgage Loans, including Down Payment Assistance Loans, and to fund costs of issuance of the 2022 Series C Bonds. See "SOURCES AND USES OF FUNDS."

DESCRIPTION OF THE 2022 SERIES C BONDS

General Terms

The 2022 Series C Bonds will be dated their date of delivery and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover of this Official Statement, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2023, to their respective dates of maturity or prior redemption. The 2022 Series C Bonds will be issued as fully registered Bonds in denominations of \$5,000 or integral multiples thereof. Interest on the 2022 Series C Bonds will be calculated on the basis of a 360-day year and twelve 30-day months.

* Preliminary, subject to change.

Book-Entry Bonds

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the 2022 Series C Bonds. The 2022 Series C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2022 Series C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, one of the world’s largest securities depositories, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2022 Series C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2022 Series C Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2022 Series C Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2022 Series C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2022 Series C Bonds, except in the event that use of the book-entry system for the 2022 Series C Bonds is discontinued.

To facilitate subsequent transfers, all 2022 Series C Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2022 Series C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2022 Series C Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2022 Series C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2022 Series C Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2022 Series C Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of 2022 Series C Bonds may wish to ascertain that the nominee holding the 2022 Series C Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2022 Series C Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2022 Series C Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2022 Series C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2022 Series C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2022 Series C Bonds at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2022 Series C Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2022 Series C Bond certificates will be printed and delivered to DTC.

Information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

Sinking Fund Redemption*

The 2022 Series C Term Bonds maturing on December 1, 2037 are subject to redemption in part, by lot, at the principal amount thereof plus accrued interest thereon to the date of redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem or pay at maturity the principal amount of such Bonds specified for each of the dates shown below:

| <u>Date</u> | <u>Amount</u> | <u>Date</u> | <u>Amount</u> |
|--------------|---------------|---------------------------|---------------|
| June 1, 2035 | \$290,000 | Dec. 1, 2036 | \$320,000 |
| Dec. 1, 2035 | 300,000 | June 1, 2037 | 335,000 |
| June 1, 2036 | 310,000 | Dec. 1, 2037 [†] | 345,000 |

[†] Final Maturity.

The 2022 Series C Term Bonds maturing on December 1, 2042 are subject to redemption in part, by lot, at the principal amount thereof plus accrued interest thereon to the date of redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem or pay at maturity the principal amount of such Bonds specified for each of the dates shown below:

| <u>Date</u> | <u>Amount</u> | <u>Date</u> | <u>Amount</u> |
|--------------|---------------|---------------------------|---------------|
| June 1, 2038 | \$360,000 | Dec. 1, 2040 | \$360,000 |
| Dec. 1, 2038 | 315,000 | June 1, 2041 | 375,000 |
| June 1, 2039 | 320,000 | Dec. 1, 2041 | 345,000 |
| Dec. 1, 2039 | 335,000 | June 1, 2042 | 360,000 |
| June 1, 2040 | 345,000 | Dec. 1, 2042 [†] | 375,000 |

[†] Final Maturity.

The 2022 Series C Term Bonds maturing on December 1, 2047 are subject to redemption in part, by lot, at the principal amount thereof plus accrued interest thereon to the date of redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem or pay at maturity the principal amount of such Bonds specified for each of the dates shown below:

| <u>Date</u> | <u>Amount</u> | <u>Date</u> | <u>Amount</u> |
|--------------|---------------|---------------------------|---------------|
| June 1, 2043 | \$390,000 | Dec. 1, 2045 | \$415,000 |
| Dec. 1, 2043 | 395,000 | June 1, 2046 | 435,000 |
| June 1, 2044 | 415,000 | Dec. 1, 2046 | 455,000 |
| Dec. 1, 2044 | 430,000 | June 1, 2047 | 475,000 |
| June 1, 2045 | 450,000 | Dec. 1, 2047 [†] | 495,000 |

[†] Final Maturity.

* Preliminary, subject to change.

The 2022 Series C Term Bonds maturing on December 1, 2052 are subject to redemption in part, by lot, at the principal amount thereof plus accrued interest thereon to the date of redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem or pay at maturity the principal amount of such Bonds specified for each of the dates shown below:

| <u>Date</u> | <u>Amount</u> | <u>Date</u> | <u>Amount</u> |
|--------------|---------------|---------------------------|---------------|
| June 1, 2048 | \$520,000 | Dec. 1, 2050 | \$600,000 |
| Dec. 1, 2048 | 540,000 | June 1, 2051 | 625,000 |
| June 1, 2049 | 565,000 | Dec. 1, 2051 | 650,000 |
| Dec. 1, 2049 | 550,000 | June 1, 2052 | 660,000 |
| June 1, 2050 | 575,000 | Dec. 1, 2052 [†] | 685,000 |

[†] Final Maturity.

The 2022 Series C Term Bonds maturing on June 1, 2053 (“PAC Bonds”) are subject to redemption in part, by lot, at the principal amount thereof plus accrued interest thereon to the date of redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem or pay at maturity the principal amount of such Bonds specified for each of the dates shown below:

| <u>Date</u> | <u>Amount</u> | <u>Date</u> | <u>Amount</u> |
|--------------|---------------|---------------------------|---------------|
| June 1, 2029 | \$125,000 | Dec. 1, 2041 | \$205,000 |
| Dec. 1, 2029 | 130,000 | June 1, 2042 | 205,000 |
| June 1, 2030 | 130,000 | Dec. 1, 2042 | 205,000 |
| Dec. 1, 2030 | 130,000 | June 1, 2043 | 205,000 |
| June 1, 2031 | 130,000 | Dec. 1, 2043 | 215,000 |
| Dec. 1, 2031 | 140,000 | June 1, 2044 | 215,000 |
| June 1, 2032 | 140,000 | Dec. 1, 2044 | 215,000 |
| Dec. 1, 2032 | 140,000 | June 1, 2045 | 215,000 |
| June 1, 2033 | 140,000 | Dec. 1, 2045 | 265,000 |
| Dec. 1, 2033 | 140,000 | June 1, 2046 | 265,000 |
| June 1, 2034 | 140,000 | Dec. 1, 2046 | 265,000 |
| Dec. 1, 2034 | 140,000 | June 1, 2047 | 265,000 |
| June 1, 2035 | 140,000 | Dec. 1, 2047 | 265,000 |
| Dec. 1, 2035 | 140,000 | June 1, 2048 | 265,000 |
| June 1, 2036 | 140,000 | Dec. 1, 2048 | 265,000 |
| Dec. 1, 2036 | 140,000 | June 1, 2049 | 265,000 |
| June 1, 2037 | 140,000 | Dec. 1, 2049 | 300,000 |
| Dec. 1, 2037 | 140,000 | June 1, 2050 | 300,000 |
| June 1, 2038 | 140,000 | Dec. 1, 2050 | 300,000 |
| Dec. 1, 2038 | 160,000 | June 1, 2051 | 300,000 |
| June 1, 2039 | 160,000 | Dec. 1, 2051 | 300,000 |
| Dec. 1, 2039 | 160,000 | June 1, 2052 | 320,000 |
| June 1, 2040 | 160,000 | Dec. 1, 2052 | 320,000 |
| Dec. 1, 2040 | 160,000 | June 1, 2053 [†] | 715,000 |
| June 1, 2041 | 160,000 | | |

[†] Final Maturity.

At the direction of the Board and prior to the forty-fifth day preceding the due date of each sinking fund installment, the amounts accumulated for such sinking fund installment may be applied by the Trustee to the purchase of 2022 Series C Bonds of the maturity otherwise to be redeemed therefrom at prices not exceeding the applicable redemption price, plus accrued interest, if any, to the date of purchase.

Upon any purchase or redemption of 2022 Series C Bonds (other than by application of sinking fund installments) for which sinking fund installments shall have been established, an amount equal to the redemption price applicable on the date on which such sinking fund installments are required is to be credited toward such sinking fund installments in the same ratio as the total amount of all such 2022 Series C Bonds so purchased or redeemed bears to the total amount of all such sinking fund installments to be so credited, unless the Board directs that the credit be applied toward a part or all of any one or more such sinking fund installments.

Special Redemption*

Unexpended Proceeds. The Board may, at its option, redeem 2022 Series C Bonds in whole or in part on any date on or after June 1, 2023 from unreserved amounts in the Program Fund allocable to the 2022 Series C Bonds and from proceeds in any fund or account allocable to the 2022 Series C Bonds to the extent allocable to such unreserved amounts in the Program Fund at a redemption price equal to 100% of the principal amount of the 2022 Series C Bonds to be redeemed (with respect to any PAC Bonds to be redeemed at a redemption price equal to the initial offering price set forth on the inside cover page), plus interest accrued to the redemption date. Unless the period for the acquisition of Mortgage Loans and Mortgage-Backed Securities is extended (to no later than May 1, 2026 in any event), the Indenture requires that amounts remaining on deposit in the Program Fund allocable to the 2022 Series C Bonds (in excess of \$250,000 in aggregate) be applied to redeem 2022 Series C Bonds on December 1, 2023 provided that such redemption is not required if the remaining amount is less than \$250,000. The PAC Bonds may be redeemed as described in this paragraph only on a proportionate basis with all other 2022 Series C Bonds.

Prepayments, Scheduled Principal Payments, Excess Revenues and Reserve Fund Reductions. The 2022 Series C Bonds will be subject to redemption, at the option of the Board (provided that Prepayments of Mortgage Loans allocable to the 2022 Series C Bonds shall first be used to redeem 2022 Series C Bonds as described below), prior to maturity as a whole or in part on any date on or after June 1, 2023 from (a) Prepayments of or scheduled principal payments on Mortgage Loans or Mortgage-Backed Securities purchased from amounts allocable to any Series of Bonds, (b) Prepayments of or scheduled principal payments on Mortgage Loans or Mortgage-Backed Securities purchased from amounts described in (a) above, (c) Revenues allocable to any Series of Bonds to the extent such Revenues are not required to meet program expenses or debt service on the Bonds or to be transferred to the Debt Service Reserve Fund to increase the amounts on deposit therein to meet the Debt Service Reserve Requirement, or (d) amounts transferred to the Revenue Fund from the Debt Service Reserve Fund or the Special Reserve Fund to the extent such amounts are not needed to meet program expenses or debt service on the Bonds, in any event at a redemption price equal to 100% of the principal amount of the 2022 Series C Bonds to be redeemed, plus interest, if any, accrued to the redemption date; provided that Prepayments, excess Revenues and amounts transferred from the Debt Service Reserve Fund or the Special Reserve Fund allocable to any Bonds other than the 2022 Series C Bonds may not be used to redeem PAC Bonds in excess of the Cumulative Redemption Amount set forth below in the Special Redemption Schedule unless no other 2022 Series C Bonds remain Outstanding.

So long as any PAC Bonds remain Outstanding, the Board shall, to the extent permitted by the Code, apply Prepayments on Mortgage Loans allocable to the 2022 Series C Bonds to the redemption

* Preliminary, subject to change.

of the PAC Bonds to the extent necessary to increase the aggregate amount of PAC Bonds redeemed as described under this paragraph to and including the redemption date to the Cumulative Redemption Amount for such date set forth on the Special Redemption Schedule set forth below. The Mortgage Loans allocable to the 2022 Series C Bonds will consist of the Additional Mortgage Loans (or portions of Additional Mortgage Loans) purchased with amounts in the Program Fund allocable to the 2022 Series C Bonds and any Additional Mortgage Loans made from prepayments of Mortgage Loans allocable to the 2022 Series C Bonds.

Prepayments on Mortgage Loans not required to be applied as described in the preceding paragraph, excess Revenues and Debt Service Reserve Fund or Special Reserve Fund reductions may be used to redeem any Outstanding 2022 Series C Bonds (or used for any other purposes permitted by the Indenture); provided that Prepayments, excess Revenues and Debt Service Reserve Fund or Special Reserve Fund reductions may not be used to redeem PAC Bonds in excess of the Cumulative Redemption Amount set forth below in the Special Redemption Schedule unless no other 2022 Series C Bonds remain Outstanding or required by Federal tax laws.

SPECIAL REDEMPTION SCHEDULE*

| <u>Date</u> | <u>Cumulative Redemption Amount[†]</u> | <u>Total PAC Bonds Outstanding</u> |
|---------------|---|--|
| Dec. 21, 2022 | - | \$10,220,000 |
| June 1, 2023 | - | 10,220,000 |
| Dec. 1, 2023 | \$100,000 | 10,120,000 |
| June 1, 2024 | 385,000 | 9,835,000 |
| Dec. 1, 2024 | 850,000 | 9,370,000 |
| June 1, 2025 | 1,490,000 | 8,730,000 |
| Dec. 1, 2025 | 2,290,000 | 7,930,000 |
| June 1, 2026 | 3,145,000 | 7,075,000 |
| Dec. 1, 2026 | 3,975,000 | 6,245,000 |
| June 1, 2027 | 4,765,000 | 5,455,000 |
| Dec. 1, 2027 | 5,530,000 | 4,690,000 |
| June 1, 2028 | 6,265,000 | 3,955,000 |
| Dec. 1, 2028 | 6,970,000 | 3,250,000 |
| June 1, 2029 | 7,685,000 | 2,535,000 |
| Dec. 1, 2029 | 8,370,000 | 1,850,000 |
| June 1, 2030 | 9,015,000 | 1,205,000 |
| Dec. 1, 2030 | 9,635,000 | 585,000 |
| June 1, 2031 | 10,140,000 | 80,000 |
| Dec. 1, 2031 | 10,220,000 | - |

[†] Includes redemption from mandatory sinking fund installments.

In the event 2022 Series C Bonds are redeemed as described under “Special Redemption – Unexpended Proceeds” above, the amounts on the Special Redemption Schedule shall be reduced on a proportionate basis.

Payments of mortgage loans are commonly projected in accordance with a prepayment standard or model. The Special Redemption Schedules are based on Securities Industry and Financial Markets Association (“SIFMA”) standard prepayments model (see “Projected Weighted Average Lives of

* Preliminary, subject to change.

PAC Bonds” below) and assumes that Mortgage Loans allocable to the 2022 Series C Bonds are purchased in accordance with an expected purchase schedule, and the Prepayments of Mortgage Loans allocable to the 2022 Series C Bonds occur at 100% SIFMA.

The Special Redemption Schedule is based generally on expectations about the timing of the origination of Additional Mortgage Loans funded with the proceeds of the 2022 Series C Bonds and the levels of Prepayments expected to be received by the Board from Mortgage Loans allocable to the 2022 Series C Bonds. The Special Redemption Schedule is included to enable potential investors to evaluate the PAC Bonds.

Transfers. Unexpended proceeds and Prepayments and other moneys on deposit in the Program Fund may be transferred from the Program Fund to the Redemption Fund for purposes of the redemptions specified above at any time.

Selection of 2022 Series C Bonds to Be Redeemed. Except as described under “Unexpended Proceeds” and “Prepayments, Scheduled Principal Payments, Excess Revenues and Reserve Fund Reductions” under “Special Redemption” above, if less than all of the 2022 Series C Bonds are to be redeemed in accordance with the foregoing, the 2022 Series C Bonds shall be redeemed from such maturities (and amounts within a maturity) as the Board shall direct.

Optional Redemption*

The 2022 Series C Bonds maturing on or after December 1, 2032 are subject to redemption at the option of the Board, on or after June 1, 2032, in whole or in part at any time, at par plus accrued interest to the date of redemption.

In the event of a partial redemption, the Board shall direct the maturity or maturities, and the amounts thereof, so to be redeemed.

Other Provisions Concerning Redemption

Notice of redemption is to be given not less than 20 nor more than 60 days prior to the redemption date by mail to the registered owner of any 2022 Series C Bonds or portions thereof to be redeemed at their last addresses appearing on the registration books of the Trustee. Actual receipt of such notice by the registered owner of any 2022 Series C Bond shall not be a condition precedent to the redemption of such 2022 Series C Bond.

Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any 2022 Series C Bond to be redeemed shall not affect the validity of the redemption of such 2022 Series C Bond. (See “Description of the 2022 Series C Bonds – Book-Entry Bonds”).

If less than all the 2022 Series C Bonds of like Series and maturity are to be redeemed, the particular 2022 Series C Bonds or the respective portions thereof to be redeemed will be selected by lot by the Trustee.

The portion of any 2022 Series C Bond of a denomination larger than the minimum denomination of \$5,000 principal amount may be redeemed in the principal amount of such minimum denomination or a multiple thereof, and for purposes of selection and redemption, any such 2022 Series C

* Preliminary, subject to change.

Bond of a denomination larger than the minimum denomination shall be considered to be that number of separate 2022 Series C Bonds of such minimum denomination which is obtained by dividing the principal amount of such 2022 Series C Bond by such minimum denomination. If there shall be selected for redemption less than all of a 2022 Series C Bond, the Board shall execute and the Trustee shall authenticate and deliver, upon the surrender of such 2022 Series C Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the 2022 Series C Bond surrendered, 2022 Series C Bonds of like Series and maturity in any of the authorized denominations.

If, on the redemption date, moneys for the redemption of 2022 Series C Bonds or portions thereof, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the 2022 Series C Bonds or portions thereof so called for redemption shall cease to accrue.

Subject to the terms and conditions set forth in the Indenture and prior to the mailing by the Trustee of a notice of redemption with respect to 2022 Series C Bonds of any particular maturity, the Board may direct the Trustee to purchase such 2022 Series C Bonds with available moneys under the Indenture for cancellation in lieu of redemption. The Trustee shall apply available moneys in accordance with the Indenture from the Funds and Accounts specified in the Indenture to purchase such 2022 Series C Bonds.

Projected Weighted Average Lives of PAC Bonds*

The following information is provided in order to enable potential investors to evaluate the PAC Bonds, which are subject to special mandatory redemption as described under the heading “Special Redemption” above.

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid to the bondholder weighted by the amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other things, the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Mortgage Loans allocable to the 2022 Series C Bonds.

Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard or model. The Special Redemption Schedule is based on the SIFMA standard prepayment model. The standard prepayment model is based upon an assumed rate of prepayment each month of then unpaid principal balance of the mortgage loans. Prepayment speeds are projected as percentages of the standard prepayment model and are referred to as Prepayment Speed Assumptions (each, a “PSA”). At 0% PSA, the standard prepayment model assumes no prepayment of mortgage loans. At 100% PSA, the standard prepayment model assumes an increasingly larger percentage of the mortgage loans prepaying each month for the first 30 months of the mortgage loans’ lives and then assumes a constant prepayment rate of 6% per annum of the unpaid principal balance for the remaining life of each of the mortgage loans.

THE PSA DOES NOT PURPORT TO BE A PREDICTION OF THE ANTICIPATED RATE OF PREPAYMENTS OF THE MORTGAGE LOANS ALLOCABLE TO THE 2022 SERIES C BONDS. THERE IS NO ASSURANCE THAT THE PREPAYMENTS OF SUCH MORTGAGE LOANS WILL CONFORM TO ANY OF THE ASSUMED PREPAYMENT RATES.

* Preliminary, subject to change.

The following table sets forth projected weighted average lives of the PAC Bonds. They are based on many assumptions, some of which may not reflect actual results. These assumptions include: (i) approximately \$30,770,000* aggregate principal amount of Additional Mortgage Loans, plus approximately \$920,000* aggregate principal amount of Down Payment Assistance Loans, will be allocated to the 2022 Series C Bonds; (ii) all amounts in the Program Fund allocable to the 2022 Series C Bonds will be used to acquire Additional Mortgage Loans; (iii) Additional Mortgage Loans allocable to the 2022 Series C Bonds will be acquired during the period beginning on January 3, 2023* and ending on June 1, 2023*; (iv) none of the money in the Program Fund allocable to the 2022 Series C Bonds will be used to redeem 2022 Series C Bonds pursuant to an unexpended proceeds redemption; (v) all Mortgage Loans allocable to the 2022 Series C Bonds (other than Down Payment Assistance Loans) will be 30-year mortgage loans (although the remaining terms of such Mortgage Loans may be less than 30 years because principal payments on Additional Mortgage Loans may be made before such Mortgage Loans are purchased by the Trustee); (vi) all Down Payment Assistance Loans will be 15-year mortgage loans; (vii) prepayments of Mortgage Loans allocable to the 2022 Series C Bonds will not be used to acquire Additional Mortgage Loans; (viii) the Mortgage Loans allocable to the 2022 Series C Bonds will be prepaid at the indicated percentage of the PSA; and (ix) the only redemptions of the PAC Bonds that will occur are of the type described under the headings “Sinking Fund Redemption” and “Special Redemption – Prepayments, Scheduled Principal Payments, Excess Revenues and Reserve Fund Reductions.” Based on the foregoing and other assumptions, some or all of which are unlikely to reflect actual experience, the following tables indicate the projected weighted average life of the PAC Bonds.

| <u>Prepayment Speed</u> | <u>Projected Weighted Average Life (in Years)*</u> |
|-------------------------|--|
| 0% PSA | 17.9 |
| 25% PSA | 11.4 |
| 50% PSA | 7.8 |
| 75% PSA | 6.0 |
| 100% PSA | 5.0 |
| 200% PSA | 5.0 |
| 300% PSA | 5.0 |
| 400% PSA | 5.0 |
| 500% PSA | 5.0 |

THE BOARD MAKES NO REPRESENTATION AS TO THE PERCENTAGE OF THE PRINCIPAL BALANCE OF THE MORTGAGE LOANS ALLOCABLE TO THE 2022 SERIES C BONDS THAT WILL BE PAID AS OF ANY DATE, AS TO THE OVERALL RATE OF PREPAYMENT OR AS TO THE PROJECTIONS OR METHODOLOGY SET FORTH UNDER THIS SUBHEADING.

* Preliminary, subject to change.

SOURCES AND USES OF FUNDS

The expected sources and uses of funds with respect to the 2022 Series C Bonds are as follows:

Sources of Funds

| | |
|-----------------------------------|----|
| 2022 Series C Bond proceeds | \$ |
| Total | \$ |

Uses of Funds

| | |
|-------------------------|----|
| To Program Fund | \$ |
| Costs of issuance..... | |
| Underwriters' fee | |
| Total | \$ |

The issuance of the 2022 Series C Bonds will not require the deposit of any additional amounts in the Debt Service Reserve Fund.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

Pledge of the Indenture

The Indenture is a contract among the Board, the Trustee and the holders of all Bonds issued thereunder and its provisions are for the equal benefit, protection and security of the holders of all such Bonds, each of which, regardless of maturity, is to be of equal rank without preference, priority or distinction, except as expressly provided in the Trust Indenture.

Payment of the principal or redemption price of and interest on all Bonds is secured by a pledge of:

- (i) the proceeds of the Bonds;
- (ii) all of the Board's interest in the Mortgage Loans and Mortgage-Backed Securities and any other loans or other assets acquired with moneys or assets subject to the lien of the Trust Indenture;
- (iii) all Revenues;
- (iv) all moneys and investments in the Funds and Accounts held under the Trust Indenture (except any Rebate Account); and
- (v) any and all other property which is held as additional security under the Trust Indenture.

Revenues consist of (i) all amounts received by the Board as repayment of principal and interest on the Mortgage Loans and Mortgage-Backed Securities, including Prepayments, (ii) moneys

deposited in any Fund or Account to secure the Bonds or to provide for the payment of the principal of, premium or interest on Bonds and (iii) to the extent provided in the Trust Indenture, interest earnings on moneys in any Fund or Account and all other payments received with respect to Mortgage Loans or Mortgage-Backed Securities, including the proceeds of mortgage insurance claims (but excluding commitment fees, service fees and escrow payments and, unless otherwise provided in a Supplemental Indenture, any income or earnings on amounts credited to the Special Reserve Fund).

Revenues and other amounts in the Revenue Fund may be withdrawn at any time to pay program expenses. The Indenture also permits the Board, at any time, upon compliance with certain cash flow and asset tests described below under “Cash Flow Certificates,” to withdraw free and clear of the lien of the Indenture, amounts in the Revenue Fund and the Program Fund (other than Bond proceeds).

The Bonds are general obligations of the Board secured by and payable from moneys pledged for the payment thereof under the Indenture, including all revenues, assets and moneys of the Board not otherwise pledged to the holders of particular notes or bonds of the Board. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds. The State is not liable for the Bonds, and the Bonds are not a debt of the State. The Act does not provide for any future appropriations by the State legislature to any fund or account established by the Indenture. The Board has no taxing power.

The Board has covenanted to diligently enforce and take all steps necessary to protect its rights with respect to the Mortgage Loans and the Mortgage-Backed Securities and to enforce all of the terms, covenants and conditions of the Mortgage Loans and the Mortgage-Backed Securities.

Cash Flow Certificates; Parity Certificates

The Indenture requires the Board periodically, and before taking certain actions, to monitor its financial position by preparing a certified statement of projected Revenues, program expenses, and debt service on the Bonds based upon the reasonable expectations of the Board at the time such Cash Flow Certificate is filed. A Cash Flow Certificate must set forth for the current and each succeeding bond year in which Bonds are scheduled to be Outstanding:

(i) as to projected Revenues, the amounts of Revenues estimated to be available for the payment of principal installments and interest when due, derived from all Mortgage Loans and Mortgage-Backed Securities purchased or financed and reasonably expected to be purchased or financed from the proceeds of such Bonds or other moneys held under the Trust Indenture, and derived from the investment of proceeds of all Bonds and Revenues, which estimate shall give effect to:

(1) estimated amounts of Prepayments of Mortgage Loans and Mortgage-Backed Securities, at the times and in the amounts set forth in the Cash Flow Certificate;

(2) scheduled payments of principal and interest (less servicing fees) with respect to Mortgage Loans and Mortgage-Backed Securities, giving effect to the estimated Prepayments;

(3) estimated income receivable from the investment of amounts held in all funds and accounts under the Indenture (other than amounts in any Rebate Account, unrestricted amounts in the Special Reserve Fund or amounts in the Special Reserve Fund

restricted for purposes other than payment of Bonds) on the date of the Cash Flow Certificate, at the times and in the amounts set forth in the Cash Flow Certificate; and

(4) amounts held in the Program Fund, the Debt Service Reserve Fund and the Redemption Fund on the date of the Cash Flow Certificate, plus any amounts in the Special Reserve Fund restricted therein by a Supplemental Indenture, which are estimated to be available in accordance with the provisions of the Indenture for payment of principal installments and interest at times and in amounts set forth in the Cash Flow Certificate (assuming that the Debt Service Reserve Fund is at no time drawn below its requirement);

(ii) as to Program Expenses, the annual budget or amended annual budget most recently on file with the Trustee less the amount withdrawn prior to the date as of which the Cash Flow Certificate is delivered to pay program expenses for the current bond year pursuant to the Indenture; and

(iii) as to debt service on the Bonds, the due dates and amounts of all principal installments of and interest on Outstanding Bonds, including any additional Bonds to be issued and Outstanding on such date and excluding Bonds, if any, which it is reasonably expected will no longer be Outstanding on such date and interest, if any, which will not thereafter be payable from Revenues as a result of defeasance in accordance with the provisions of the Indenture;

except that (y) to the extent specified in a Supplemental Indenture, any additional fund or account established in said Supplemental Indenture shall not be taken into account when preparing such Cash Flow Certificate and (z) amounts credited to the Special Reserve Fund shall not be taken into account unless directed by the Board and upon the written consent of the Rating Agency. The Cash Flow Certificate shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Board's reasonable expectations at the time such Cash Flow Certificate is filed and which Cash Flow Certificate shall contain similar assumptions as required by the Rating Agency (unless otherwise waived by the Rating Agency) in the most recent Cash Flow Certificate filed by the Board with the Trustee. Upon filing a Cash Flow Certificate with the Trustee, the Board shall thereafter administer the Program and perform its obligations under the Trust Indenture in accordance, in all material respects, with the assumptions set forth in such Cash Flow Certificate. Except with respect to actions being taken contemporaneously with the delivery of a Cash Flow Certificate, facts reflected in a Cash Flow Certificate may be as of a date or reasonably adjusted to a date not more than 180 days prior to the date of delivery of such Cash Flow Certificate.

The Board shall file a Cash Flow Certificate (i) prior to or concurrent with the issuance or conversion (i.e., in conjunction with the resetting of the interest rate thereon) of any Series of Bonds, (ii) on or within 60 days after any June 1, if a Cash Flow Certificate has not been filed within the prior year or within 60 days of the last day of such longer period as the Board shall adopt, provided that the adoption of such period shall not, in and of itself, adversely affect the Rating Quality on the Bonds, (iii) upon purchase or redemption of Bonds in a manner other than as contemplated in the most recent Cash Flow Certificate filed by the Board with the Trustee and (iv) at such other times as required by the Indenture or as may be required by a Supplemental Indenture, and may file a Cash Flow Certificate at any time in its discretion; provided that the Board is not required to file a Cash Flow Certificate as aforesaid if the Board certifies to the Trustee that the assumptions for the most recently filed Cash Flow Certificate are still correct, and in the case of (ii) above if a Cash Flow Certificate has not been filed within the prior year each Rating Agency is notified of the Board's intention to not prepare a new Cash Flow Certificate and does not object to the same within 10 days, in which case such most recently filed Cash Flow Certificate shall be deemed a newly filed Cash Flow Certificate as required aforesaid. The listing of Revenues from Mortgage Loans, Mortgage-Backed Securities and Authorized Investments is to be supported, at the request of the Trustee,

by a schedule identifying the Mortgage Loans, Mortgage-Backed Securities and Authorized Investments by maturity and interest rate. The Board must also, at the request of the Trustee, supply a schedule showing the sources and applications of funds used, including amounts used to pay or redeem Bonds, transferred between Funds, and used to pay costs of issuance and capitalized interest.

In the event the Board shall at any time file with the Trustee a Parity Certificate, and a Cash Flow Certificate projecting Revenues sufficient to pay Program Expenses and Accrued Debt Service when due in each Bond Year, taking into account the use or release of any moneys, Mortgage Loans or Mortgage-Backed Securities, the Trustee may, upon receipt of a Board request, use all or any part of such excess for any purpose specified by the Board and in accordance with the Act, or transfer all or any part of the amount of such excess to the Special Reserve Fund or to the Board, free and clear of the lien and pledge of the Indenture, for any housing programs of the Board.

“Parity Certificate” means a certificate, giving effect to any action contemplated to be taken in connection with the filing thereof, showing that (a) the sum of (i) the moneys, Authorized Investments and Reserve Equivalents then credited to the Program Fund, the Revenue Fund (but excluding moneys held therein for the payment of interest on Outstanding Bonds or Program Expenses), the Debt Service Reserve Fund and the Redemption Fund (but not including any moneys or Authorized Investments held therein for the payment of Bonds no longer deemed Outstanding under the Indenture), (ii) the unpaid principal amount of all Mortgage Loans and Mortgage-Backed Securities credited to the Program Fund and (iii) such other amounts, if any, as may be specified by a Supplemental Indenture (which may be part or all of the assets in the Special Reserve Fund), equals or exceeds (b) an amount equal to 102% (or such lesser percentage as does not adversely affect the Rating Quality of the Bonds) of the principal amount of Outstanding Bonds of all Series.

Debt Service Reserve Fund

The Board has also established a Debt Service Reserve Fund for the Bonds. The Indenture provides that the Board may not issue any additional Series of Bonds unless, upon the issuance and delivery of such Bonds, the amount in the Debt Service Reserve Fund is at least equal to the Debt Service Reserve Requirement.

“Debt Service Reserve Requirement” means, as of any date of calculation, the aggregate of the amounts specified, if any, as the Debt Service Reserve Requirement in each Supplemental Indenture for Outstanding Bonds. The Debt Service Reserve Requirement for the 2022 Series C Bonds will be 3% of the Outstanding 2022 Series C Bonds.

The Indenture requires that if on any bond payment date there is not a sufficient amount available in the Revenue Fund, the Special Reserve Fund, the Redemption Fund or the Program Fund available for such purpose, to pay the principal, sinking fund installments and interest due on the Bonds, the Trustee must apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency. Amounts in the Debt Service Reserve Fund may also be withdrawn to pay taxes, insurance, foreclosure fees and repairs to the residence and similar expenses incurred by the Board in connection with any protection and enforcement of its rights with respect to any Mortgage Loan. Amounts in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be transferred to other Funds or Accounts.

The Debt Service Reserve Fund is not an account or a subfund within, or in any way related to, the state capital reserve account referred to in the Act. The Debt Service Reserve Requirement is not a “minimum capital reserve requirement” within the meaning of the Act.

Additional Bonds

The Board is not permitted to issue any obligations or create any indebtedness which will be secured by a superior or equal charge or lien on the Revenues pledged under the Indenture, except that various Series of Bonds may be issued as provided in the Indenture on a parity with the Bonds of all other Series, secured by an equal charge and lien on the Revenues and payable equally therefrom. As a condition to the issuance of additional Bonds, the Board must, among other things, deliver to the Trustee a Cash Flow Certificate which projects Revenues sufficient to pay program expenses and debt service on the Bonds when due in each bond year and written verification from each Rating Agency (i) that the rating on such Series of Bonds is not lower than the Rating Quality of the Bonds Outstanding prior thereto, or (ii) to the effect that the issuance of such Series of Bonds will not, in and of itself, adversely affect the Rating Quality of any Outstanding Bonds of any prior Series of Bonds. No such Series of Bonds may be issued unless the principal amount of all Bonds issued or to be issued will not exceed any limitation imposed by law and unless, upon the issuance of such Bonds, the amount credited to the Debt Service Reserve Fund will not be less than the Debt Service Reserve Requirement. The Board has reserved the right to issue obligations secured by the Special Reserve Fund and obligations not secured under the Indenture.

“Rating Agencies” or each “Rating Agency” means Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), or any other nationally recognized rating agency approved by the Board.

“Rating Quality” means, with respect to any Series of Bonds, having terms, conditions and/or a credit quality such that the item stated to be of “Rating Quality” will not, as confirmed in writing received by the Trustee from each Rating Agency, impair the ability of the Board to maintain the then existing rating or ratings received from each Rating Agency with respect to the Bonds, and if not with respect to a particular Series of Bonds, will not cause either Rating Agency to lower or withdraw the ratings it has assigned to the Bonds; provided that for such purposes the ratings assigned to the Bonds shall not be required to exceed “Aa2” by Moody’s and “AA” by S&P.

ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS, OPERATING EXPENSES AND CERTAIN OTHER MATTERS

The Board expects payments of principal and interest on the Mortgage Loans and the Mortgage-Backed Securities, together with Prepayments to be received by the Board with respect to Mortgage Loans and Mortgage-Backed Securities and income expected to be derived from the investment of moneys in funds and accounts established pursuant to the Indenture, to be sufficient to pay the interest on, principal of and sinking fund installments for the Bonds and the costs of operating the Program. Certain assumptions have been made as to the range of variation in the generation of Revenues from such sources in order to determine the effect of such variation on the sufficiency of Revenues to pay debt service on the Bonds. The Board has reviewed these assumptions and concluded that they are reasonable, but cannot guarantee that actual results will not vary materially from those projected. To the extent that (i) Additional Mortgage Loans and Mortgage-Backed Securities are not purchased at the times anticipated by the Board, or are not purchased at all, (ii) Mortgage Loans and Mortgage-Backed Securities purchased by the Board are not paid on a timely basis in accordance with their terms, (iii) the rate of receipt of Prepayments is either more rapid or less rapid than that projected, or (iv) actual investment income differs from that estimated by the Board, the moneys available may be insufficient for the payment of debt service on the Bonds and operating expenses of the Program.

Payments on Mortgage Loans and Mortgage-Backed Securities, whether from scheduled monthly installments or from Prepayments, together with Revenues generated as investment income on the

funds held under the Indenture, are assumed to be the primary source of revenue. All Additional Mortgage Loans are assumed to amortize as thirty-year, fixed-rate mortgages.

The Board anticipates that there will be some delinquent Mortgage Loan payments and foreclosed Mortgage Loans. In addition, physical damage to the residences securing the Mortgage Loans may exceed the limits of, or be caused by a peril not insured under, the standard hazard insurance policies insuring such residences, thereby diminishing the value of the Mortgage Loans securing the Bonds. The Board believes that it is reasonable in assuming that at all times the balance in the Debt Service Reserve Fund will enable it to make timely debt service payments on the Bonds and absorb any losses on foreclosed Mortgage Loans for which mortgage guaranty or insurance or standard hazard insurance proceeds are insufficient.

The Board has established a maturity and sinking fund installment schedule for the 2022 Series C Bonds based on scheduled amortization payments on the Mortgage Loans allocable to the 2022 Series C Bonds and other available Revenues, assuming no Prepayments of such Mortgage Loans. If Prepayments occur and the Board does not use such amounts to purchase Additional Mortgage Loans, a portion of the Bonds is likely to be redeemed pursuant to the special redemption provisions of the Indenture. See “Description of the Bonds -- Special Redemption.” The Board anticipates that a portion of the Mortgage Loans will be partially or completely prepaid or terminated prior to their respective final maturities as a result of events such as sale of the residence, default, condemnation or casualty loss, or noncompliance with the Program, including the requirements of the Code. There is no reliable basis for predicting the actual average life of the Mortgage Loans. The Board does, however, anticipate prepayment of a number of Mortgage Loans and it is probable that the 2022 Series C Bonds will have a substantially shorter life than their respective stated maturities.

The Board believes these assumptions are reasonable, but cannot guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of revenues from Mortgage Loans and Mortgage-Backed Securities, investment earnings and insurance or guaranty proceeds available for the payment of principal of, sinking fund installments for and interest on the 2022 Series C Bonds and costs of operating of the Program may be adversely affected.

Amounts allocable to the 2022 Series C Bonds, may be invested pursuant to one or more collateralized repurchase agreements constituting Authorized Investments.

Delays after Defaults on Mortgage Loans

In the event that a mortgagor defaults in the payment of a Mortgage Loan and the Board institutes foreclosure proceedings, there will be certain required time delays which, should they occur with respect to a sufficient number of Mortgage Loans, could disrupt the flow of revenues available for the payment of principal of, sinking fund installments for and interest on the Bonds. These time delays derive from the procedures applicable to the collection of mortgage insurance or guarantees as well as those required under Montana law for the enforcement of rights of mortgagees. Those procedures and their effect on the Board’s ability to collect on defaulted Mortgage Loans are described in “Appendix A -- Insurance, Guarantees and Foreclosure.”

Nonorigination of Additional Mortgage Loans

Competition in making real estate loans in the State of Montana normally comes primarily from savings and loan associations, commercial banks and other mortgage lenders in the area. One of the principal factors in competing for real estate loans is the interest rate charged to the mortgagor. While the

Board expects the Additional Mortgage Loans will be made at less than current prevailing market rates, market interest rates on other available mortgage loans could decline and become competitive with and possibly more attractive than the Additional Mortgage Loans. If interest rates on other available mortgage loans decline substantially, the Board may not be able to purchase Additional Mortgage Loans. The Board may make financing available for mortgage loans through additional qualified mortgage bond, mortgage credit certificate or other single family housing programs. See “The Montana Board of Housing -- Operations to Date.” In the event moneys in the Program Fund allocable to the 2022 Series C Bonds are not used to purchase Additional Mortgage Loans, the 2022 Series C Bonds (other than the PAC Bonds) are subject to redemption prior to maturity at par, under certain circumstances. See “Description of the 2022 Series C Bonds -- Special Redemption.”

Generally, for mortgage loans made from the proceeds of any tax-exempt financing, the Code requires a payment to the United States from certain mortgagors in the event of a gain upon the sale of their homes (the “Recapture Provision”). The Recapture Provision requires that an amount determined to be the subsidy provided by tax-exempt financing be paid to the United States upon disposition of the home (but not in excess of 50% of the gain realized by the mortgagor). The recapture amount increases during the first five years of ownership, with maximum recapture occurring if the home is sold during the fifth year. The recapture amount declines ratably to zero with respect to sales occurring in years six through nine. The Code excludes from recapture part or all of the subsidy in the case of mortgagors whose incomes are less than prescribed amounts at the time of the disposition. The Recapture Provision may result in reduced demand for Additional Mortgage Loans.

EXISTING MORTGAGE LOAN PORTFOLIO

General

The following tables set forth information with respect to the Existing Mortgage Loans held under the Trust Indenture:

| <u>Series</u> | <u>Mortgage Loan Rate</u> | <u>Mortgage Loans Purchased^{1/}</u> | <u>Balance of Mortgage Loans Purchased^{1/2/}</u> | <u>Mortgage Loans Outstanding^{1/}</u> | <u>Principal Balance of Mortgage Loans Outstanding^{1/}</u> |
|---------------------------------|-----------------------------------|--|---|--|---|
| 2015 Series B ^{3/4/} | 0.00-7.50% | 2,637 | \$272,307,510 | 241 | \$19,985,564 |
| 2016 Series A ^{5/} | 0.00-6.875% | 2,279 | 160,891,962 | 368 | 32,725,191 |
| 2017 Series A ^{7/} | 3.25-6.00% | 811 | 109,999,147 | 148 | 17,100,717 |
| 2017 Series B ^{3/8/} | 0.375-6.50% | 985 | 135,198,535 | 156 | 19,358,537 |
| 2018 Series B | 3.75-5.25% | 283 | 50,089,932 | 159 | 24,707,063 |
| 2019 Series B ^{9/} | 3.25-4.75% | 239 | 30,420,863 | 148 | 17,785,307 |
| 2020 Series A ^{9/10/} | 0.00-5.125% | 536 | 71,243,264 | 256 | 29,439,376 |
| 2020 Series B ^{9/11} | 0.375-4.75% | 395 | 51,486,471 | 229 | 26,308,750 |
| 2020 Series C ^{9/} | 2.50-3.75% | 231 | 30,333,825 | 216 | 27,355,349 |
| 2021 Series A ^{3/9/12} | 1.00-9.75% | 4,127 | 282,923,608 | 433 | 38,528,705 |
| 2021 Series B ^{9/} | 2.25-3.00% | 226 | 32,758,630 | 221 | 31,770,122 |
| 2022 Series A ^{9/} | 2.625-3.375% | 198 | 30,134,751 | 198 | 29,947,494 |
| 2022 Series B ^{9/} | 4.00-5.00% | 19 | 2,987,374 | 19 | 2,985,763 |
| Other Series ^{3/6/9/} | 0.00-9.125% | 9,830 | 535,262,545 | 655 | 12,261,725 |
| TOTAL | | <u>22,796</u> | <u>\$1,796,741,944</u> | <u>3,447</u> | <u>\$330,259,663</u> |

^{1/} As of June 30, 2022.

^{2/} Reflects principal amount of Mortgage Loans when purchased by the Board.

^{3/} Includes Mortgage Loans made with recycled prepayments.

^{4/} Includes 1996 Series A, 2006 Series A, 2006 Series B and 2006 Series C Mortgage Loans

^{5/} Includes 1977 Series A, 1997 Series A-1 and 2007 Series A-1 Mortgage Loans.

^{6/} Includes 1977 Series B, 1978 Series A, 1987 Series A, 1987 Series B, 1988 Series A, 1990 Series A, 1990 Series B, 1990 Series C, 1991 Series A, 1991 Series B, 2000 Series A, 2000 Series B, 2001 Series A and 2007 Series A-2 Mortgage loans. Includes special program loans made from funds other than bond proceeds held in the Special Reserve Fund.

^{7/} Includes 2007 Series B Loans.

^{8/} Includes 2007 Series C and 2007 Series D Loans.

^{9/} Includes Down Payment Assistance Loans.

^{10/} Includes 2011A/2009B Loans.

^{11/} Includes 2009E Loans.

^{12/} Includes 1985 Series A, 1989 Series A, 1992 Series A, 1998 Series A, 1999 Series A, 2000 Series B, 2001 Series A, 2002 Series A, and 2011B/2009C Loans.

Delinquency Experience

The delinquencies experienced with respect to Mortgage Loans held under the Trust Indenture at the end of each quarter beginning in 2018 are set forth below:

MONTANA BOARD OF HOUSING DELINQUENCY STATISTICS

(Mortgage Loans Held Under Trust Indenture)

| QUARTER | NUMBER OF LOANS SERVICED AT QUARTER END* | NUMBER OF LOANS DELINQUENT** | % OF LOANS | | |
|----------|--|------------------------------------|--------------------------|--------------------------|------------------------|
| | | | DELINQUENT 30-59 DAYS | DELINQUENT 60-89 DAYS | DELINQUENT 90+ DAYS |
| I-2018 | 2,222 | 54 (2.43%) | 0.90 | 0.63 | 0.90 |
| II-2018 | 2,246 | 57 (2.54%) | 1.51 | 0.67 | 0.36 |
| III-2018 | 2,428 | 67 (2.76%) | 1.48 | 0.82 | 0.45 |
| IV-2018 | 2,574 | 64 (2.49%) | 1.44 | 0.43 | 0.62 |
| I-2019 | 2,607 | 51 (1.96%) | 1.00 | 0.35 | 0.61 |
| II-2019 | 2,588 | 66 (2.55%) | 1.28 | 0.73 | 0.54 |
| III-2019 | 2,670 | 59 (2.21%) | 1.27 | 0.56 | 0.37 |
| IV-2019 | 2,832 | 81 (2.86%) | 1.45 | 0.71 | 0.71 |
| I-2020 | 3,046 | 69 (2.27%) | 1.08 | 0.36 | 0.82 |
| II-2020 | 3,223 | 119 (3.67%) | 1.40 | 0.84 | 1.46 |
| III-2020 | 3,251 | 157 (4.83%) | 1.32 | 0.86 | 2.65 |
| IV-2020 | 3,241 | 185 (5.71%) | 1.45 | 0.77 | 3.49 |
| I-2021 | 3,228 | 180 (5.58%) | 1.21 | 0.62 | 3.75 |
| II-2021 | 3,443 | 201 (5.84%) | 0.99 | 0.76 | 4.10 |
| III-2021 | 3,408 | 188 (5.46%) | 1.12 | 0.88 | 3.52 |
| IV-2021 | 3,411 | 170 (4.98%) | 1.11 | 0.82 | 3.05 |
| I-2022 | 3,441 | 137 (3.98%) | 1.08 | 0.41 | 2.50 |
| II-2022 | 3,447 | 159 (4.61%) | 1.62 | 0.55 | 2.44 |

* Quarters end on March 31, June 30, September 30 and December 31. Data does not include Mortgage Loans that are in foreclosure post sale. As of June 30, 2022, 10 Mortgage Loans were in foreclosure post sale.

** Data does not include Mortgage Loans in possible foreclosure. As of June 30, 2022, 9 Mortgage Loans were in possible foreclosure and the Board had 2 foreclosed properties in inventory. Data also includes loans that are not considered “delinquent” under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). See “The Montana Board of Housing—Operations Disruption Risk; COVID-19” and “Appendix A -- Insurance, Guarantees and Foreclosure.”

Loan Insurance

The following table sets forth information with respect to the mortgage insurance maintained with respect to the Mortgage Loans held under the Trust Indenture as of June 30, 2022.

| <u>Insurance Provider</u> | <u>Number of Mortgage Loans</u> | <u>Outstanding Principal Balance</u> | <u>Percentage of Total (No. of Loans)</u> | <u>Percentage of Total (Amount)</u> |
|---|---------------------------------|--------------------------------------|---|-------------------------------------|
| FHA | 1,637 | \$216,429,706 | 47.49% | 65.53% |
| VA | 192 | 29,889,847 | 5.57 | 9.05 |
| USDA-RD | 492 | 55,672,417 | 14.27 | 16.86 |
| HUD | 11 | 832,071 | 0.32 | 0.25 |
| PMI | 29 | 2,127,143 | 0.85 | 0.65 |
| Uninsured Deep-Equity Loans ^{1/} | 603 | 22,160,229 | 17.49 | 6.71 |
| Special Program Loans ^{2/} | 483 | 3,148,250 | 14.01 | 0.95 |
| TOTAL | 3,447 | \$330,259,663 | 100.00%^{3/} | 100.00%^{3/} |

^{1/} Uninsured deep-equity loans are conventional mortgage loans that have an initial loan-to-value ratio below 80% and meet special program criteria. Of such loans, 417 are down payment and closing cost assistance second mortgage loans.

^{2/} Special program loans are made from funds other than bond proceeds and are held in the Special Reserve Fund. Although pledged to secure the Bonds, such mortgage loans are not required to satisfy the normal Trust Indenture requirements for mortgage loans and may be released from the lien of the Trust Indenture at the request of the Board. Of such loans, 469 are down payment and closing cost assistance second mortgage loans.

^{3/} Totals may not add due to rounding.

See “Appendix A -- Insurance, Guarantees and Foreclosure” for a description of the mortgage insurance or guaranty to be maintained with respect to the Mortgage Loans.

SINGLE FAMILY PROGRAM

Introduction

The following describes the Board’s current requirements for mortgage loans financed under the Program. The Existing Mortgage Loans were required to satisfy the requirements of the Act, the Code and the Guide when originated and purchased. Such requirements may have differed, however, from the requirements described below. The Board may apply different requirements and procedures with respect to the purchase of Additional Mortgage Loans from amounts representing Prepayments of Mortgage Loans and from amounts made available by the issuance of any additional Series of Bonds under the Trust Indenture, so long as such requirements satisfy the requirements for Mortgage Loans under the Act, the Code and the Trust Indenture.

Under the single family program under the Trust Indenture, the Board expects that it will purchase (or reimburse itself for funds used to purchase) from lending institutions approximately

\$30,770,000* aggregate principal amount of newly originated Additional Mortgage Loans, plus approximately \$920,000* aggregate principal amount of Down Payment Assistance Loans, with amounts made available by the issuance of the 2022 Series C Bonds. The Mortgage Loans must finance single family housing for persons and families of lower income, as determined by the Board in accordance with the Act and the Code. Each Mortgage Loan financed with amounts made available by the issuance of the 2022 Series C Bonds must be an interest bearing obligation secured by an instrument which constitutes or creates a valid lien on real property held in fee simple or on a leasehold under a lease having a remaining term at the time the Mortgage Loan is acquired which is at least fifty years.

To be eligible for purchase under the Guide, Mortgage Loans (other than Down Payment Assistance Loans) must be insured by FHA or guaranteed by VA, USDA-RD or HUD or have a loan-to-value ratio of 80% or below. The Board presently expects that the Additional Mortgage Loans purchased with amounts made available by the issuance of the 2022 Series C Bonds will be insured by FHA or guaranteed by VA, USDA-RD or HUD or have a loan-to-value ratio below 80%. The FHA, VA, USDA-RD and HUD insurance and guaranty programs and the PMI provided by the PMI Providers are summarized in Appendix A. The Board has reserved the right, however, to purchase Mortgage-Backed Securities issued by Fannie Mae, Freddie Mac and GNMA. Mortgage loans backing Mortgage-Backed Securities are not required to be insured or guaranteed. Additional Mortgage Loans purchased with amounts made available by the issuance of the 2022 Series C Bonds are to have an initial term of thirty years and are to be payable in substantially equal monthly installments, consisting of both principal and interest.

The Additional Mortgage Loans purchased with amounts made available by the issuance of the 2022 Series C Bonds are expected to be made, initially, at interest rates of 5.25% per annum (up to 6.00% per annum for certain special program loans), and such Additional Mortgage Loans (other than Down Payment Assistance Loans) may constitute participations in mortgage loans bearing interest at 0% per annum. The Board has reserved the right to make Additional Mortgage Loans at higher or lower interest rates, including the right to acquire participations in Mortgage Loans bearing interest at 0% per annum. Additional Mortgage Loans (other than Down Payment Assistance Loans) and the Underlying Mortgage Loans backing the Mortgage-Backed Securities purchased with amounts made available by the issuance of the 2022 Series C Bonds are to have an initial term of thirty years and are to be payable in substantially equal monthly installments, consisting of both principal and interest. Down Payment Assistance Loans will be second lien loans, will be payable in substantially equal monthly installments and are expected to amortize over a period of no longer than thirty years.

All Additional Mortgage Loans which the Board intends to purchase under the Single Family Program will be secured by mortgages on single family residential dwellings located in the State and purchased by persons and families of lower income. See “Mortgage Loan Eligibility Requirements” below.

Mortgage Loan Eligibility Requirements

Introduction. The Board currently requires that each Mortgage Loan purchased by it with the amounts made available by the issuance of the 2022 Series C Bonds (i) comply with the requirements of the Act and the Code, unless exempted by tax law transition rules, and be executed and recorded in accordance with existing law, (ii) (other than Down Payment Assistance Loans) be secured by a first mortgage lien on real property within the State, (iii) require the payment of all taxes and casualty and hazard insurance premiums by escrow, and give the Board the right to make such payments when due and unpaid with the amount thereof being added to the debt secured by the lien of the mortgage, (iv) be made with respect to premises which are insured against fire and other hazards as required by the Board on policies

* Preliminary, subject to change.

designating the Board as loss payee, and (v) (other than Down Payment Assistance Loans) be insured by FHA for the unpaid principal amount of the Mortgage Loan, guaranteed by VA, USDA-RD or HUD to the full extent permitted under VA, USDA-RD or HUD regulations, as applicable. See “Appendix A -- Insurance, Guarantees and Foreclosure”.

The Board may sell, assign or otherwise dispose of a Mortgage Loan (i) in default, (ii) in order to realize the benefits of mortgage insurance with respect to such Mortgage Loan, or (iii) to a Mortgage Lender in rescission of a sale to the Board pursuant to the Guide.

Income Limitations. All Mortgage Loans which the Board intends to purchase under the Single Family Program have been or will be made to persons and families of lower income pursuant to the Act and, if applicable, Section 143 of the Code. The Act defines persons and families of lower income as persons and families with insufficient personal or family incomes or other financial resources, who require assistance under the Act, as determined by the Board. This determination must take into consideration: (i) the total amount of the personal and family income, assets and other financial resources available for housing needs, (ii) the size of the family, (iii) the eligibility of persons and families under federal housing assistance programs of any type based on lower income or a functional or physical disability, (iv) the ability of persons and families to compete successfully in the normal housing market and to pay the amount at which private enterprise is providing decent, safe, and sanitary housing, (v) the availability and cost of housing in particular areas, and (vi) the needs of particular persons or families due to age or physical handicaps.

The maximum family incomes for all borrowers, as established by the Board, currently range from \$81,200 to \$119,280 for one or two person families, and from \$93,380 to \$139,160 for three or more person families (and, in the case of 0% Down Payment Assistance Loans, \$60,000 for one or two person families and \$75,000 for three or more person families). Income and eligibility standards must be reviewed at least annually and may be revised by the Board at any time. Limits on income will in no event exceed the maximum levels, if any, permitted by the Code.

The Code limits the availability of financing of Mortgage Loans from proceeds of the 2022 Series C Bonds to mortgagors whose family income does not exceed 115% (100% for one or two-person families) of the greater of area or state median income, except with respect to mortgage loans in targeted areas and high housing cost areas as discussed below. Family income of mortgagors (as well as median area income) is to be determined under Treasury Department regulations which take into account the regulations and procedures under Section 8 of the United States Housing Act of 1937, as amended. In “targeted areas,” as defined in the Code, two-thirds of the mortgage financing provided with the proceeds of a single family mortgage bond issue must be provided to mortgagors who have family incomes not exceeding 140% (120% for one or two-person families) of the greater of area or state median income. The remaining one-third of the net proceeds to provide mortgage loans in targeted areas may be loaned without regard to income limitations. The Code allows for certain income limit adjustments for any “high housing cost areas” which may exist in the State. The median family income for the State of Montana is currently \$81,200 and the median family income for certain areas within the State is greater.

Purchase Price Limitations. A Mortgage Loan to be purchased with proceeds of the 2022 Series C Bonds must be made for the purpose of enabling a lower income person or family to acquire or construct (but not refinance) a home which is to be occupied as the principal residence of such person or family. In addition, Mortgage Loans financed with the proceeds of the 2022 Series C Bonds must meet all purchase price limits imposed by the Board. The Code provides that purchase price limitations published by the Treasury Department may be relied upon, or a different limitation may be used for any area for which there is more accurate and comprehensive data. The safe harbor limitations in Montana currently range

from \$388,362 to \$557,368 for both new and existing homes. The maximum purchase prices for all homes, as established by the Board, currently range from \$349,525 to \$613,104.

Qualifying Loans. Interest on obligations of a governmental unit, such as the Board, that are issued to finance single family residences are not included in gross income for federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the obligations, the use of funds generated thereby, the nature of the residence and mortgage, and the eligibility of the borrower executing the mortgage note. For a description of the requirements of the Code, see “Tax Status – Mortgage Loan Eligibility Requirements Imposed by the Code” below.

The Board has provided procedures and requirements in the Guide and other Single Family Mortgage Program documents to ensure compliance with such mortgage eligibility requirements. Under the terms of the Guide, Mortgage Lenders are required to review each application for mortgage loan financing to assure that the Mortgage Loan will be eligible for financing under the Code. The Board will require each borrower to execute a sworn affidavit attesting to compliance with the mortgage eligibility requirements. The mortgage securing each Mortgage Loan provides that such Mortgage Loan is not assumable except upon prior written approval of the Board.

Additionally, the Board will require the Mortgage Lenders to follow interpretations and guidelines of the Board in reviewing the eligibility of the Mortgage Loan, in investigating the borrower’s application and in verifying that the proposed Mortgage Loan is in compliance with Code requirements. In addition, the documentation for all Mortgage Loans will be reviewed by the staff of the Board. The Board believes, and Bond Counsel is of the opinion that, these documentation requirements and procedures are sufficient for purposes of complying with the mortgage eligibility requirements of the Code. See “Mortgage Origination and Purchase Procedures” below.

Targeted Area Requirement. The Code requires that a portion of the lendable proceeds of the 2022 Series C Bonds be made available for owner financing of Targeted Area (defined below) residences for at least one year from the date of which owner financing is first made available and that the issuer must proceed with reasonable diligence to place such proceeds in qualified mortgages. See “Tax Status -- Other Requirements Imposed by the Code.”

Other Requirements. See “Tax Status” for a discussion of other requirements for borrowers and Mortgage Loans imposed by the Code.

Origination and Purchase Procedures for Mortgage Loans

Mortgage Lender Participation. The Board makes moneys to finance Mortgage Loans available to a large number of mortgage lenders located throughout the State of Montana.

Mortgage Loan Reservations. All amounts made available by the issuance of the 2022 Series C Bonds to purchase Mortgage Loans are committed to Mortgage Lenders on a loan by loan, first come, first served basis. An eligible Mortgage Lender desiring to reserve funds must provide to the Board in writing or electronically: (i) the name of the Mortgage Lender, (ii) the name and address of the borrower, (iii) the income of the borrower (with verifications), (iv) whether the residence is existing housing or new construction, (v) the amount of the loan, (vi) a copy of an executed agreement between the borrower and seller, (vii) a copy of an executed FHA, VA, USDA-RD or HUD loan application signed by the borrower, or any other loan application approved by the Board, and (viii) borrower's credit score and ratios and a copy of the borrower's Homebuyer Education Certificate, if required. Upon receipt and review for sufficiency of such documents, the Board will reserve bond proceeds for 60 days to acquire Mortgage Loans on existing housing and for 180 days to acquire Mortgage Loans for new construction. Such periods may be extended with a ¼% loan discount for each thirty-day extension. If the Mortgage Loan is not acquired by the Board within this time period, the reservation will expire and the Board, in its discretion, may require the Lender to forfeit an amount equal to ½ of 1% of the reservation amount. Lender fees of up to 1.75% may be charged to borrowers or sellers. Mortgage Loans are purchased by the Board at a price of 101% of the principal amount thereof.

Origination Procedures. Under the terms of the Guide, each Mortgage Lender agrees that the Mortgage Loans made by the Mortgage Lender must meet the qualifications described in the Guide before such Mortgage Loans can be sold to the Board in accordance with procedures prescribed by the Board.

The Guide provides guidance for originating and servicing Mortgage Loans and contains various required forms that have been designed to assist the Mortgage Lenders in complying with Code requirements. The policies and procedures of the Board may be modified from time to time consistent with the Code.

Mortgage Lenders are responsible for reviewing each document comprising the Mortgage Loan application and related submissions to determine compliance with the Board's standards and requirements for qualification of Mortgage Loans. Requirements for qualification are set forth in the Guide. Appropriate measures are required to be undertaken by the Mortgage Lenders for the Board to ascertain that documentation exists to support a conclusion that the Board's requirements for qualification of Mortgage Loans to the extent applicable, including the Section 143 requirements of the Code, have been met.

Procedures regarding compliance with the Section 143 requirements have been established by the Board and require that Mortgage Lenders, where applicable, make a thorough check of information prior to closing a loan including, among other measures:

- (1) obtaining an affidavit of borrower's eligibility from the loan applicant and from each person executing the mortgage note who is expected to occupy the residence, on a form supplied by the Board, together with one or more forms acceptable to the Board, employment verifications and other information which would tend to confirm or deny compliance with the Code requirements; and
- (2) examining the documentation submitted by the mortgagor and other pertinent information obtained in connection with the origination of the Mortgage Loan in order to determine that

sufficient documentary evidence exists to support the conclusion that the Section 143 eligibility requirements of the Code have been met.

Mortgage Lenders have been advised that strict compliance with the Single Family Program and Code mortgage eligibility requirements will be enforced and that no waiver or exceptions can be granted. Mortgage Lenders warrant as to each Mortgage Loan sold to the Board that:

(i) the Mortgage Lender has diligently performed the inquiries and investigations required under the Guide and, based upon such inquiries and investigations and such other facts and circumstances which the Mortgage Lender may be aware of, the Mortgage Lender has no reason to believe that Code eligibility requirements have not been met;

(ii) FHA insurance, or VA, USDA-RD or HUD guaranty has been obtained, as well as all required hazard, title, and other insurance;

(iii) neither the Mortgage Lender nor any other person has advanced funds for the required payments under any Mortgage Loan;

(iv) the Mortgage Lender knows of no material misstatement or omission in the documents supplied by the borrower;

(v) the mortgage creates a valid first lien on the real property securing the Mortgage Loan or on a leasehold interest in such property; and

(vi) the Mortgage Loan is not subject to any assignment or pledge.

Before any Mortgage Loan is purchased, the Board will review and inspect all relevant mortgage origination documents. In the event that a warranty made by a Mortgage Lender with respect to any Mortgage Loan is found to be untrue or misleading in any material respect, the Board is entitled to all remedies provided by law, including but not limited to the right to tender such Mortgage Loan to the Mortgage Lender for repurchase.

Notwithstanding any Mortgage Lender's compliance with contractual requirements in the Guide regarding verification and investigations, the Board reserves the right to decline to purchase any Mortgage Loan which the Board determines, in its sole discretion, fails to meet the applicable requirements of Section 143 of the Code.

Participating Mortgage Lenders must be authorized to engage in the business of making mortgage loans in the State and must maintain an office in the State. Mortgage Lenders may service Mortgage Loans originated for purchase by the Board or assign the servicing function to another servicer approved by the Board as explained in "Servicing Procedures for Mortgage Loans" below.

Mortgage Insurance Requirements for Mortgage Loans

The Board currently requires that the Mortgage Loans purchased by it with amounts made available by the issuance of the 2022 Series C Bonds (other than Down Payment Assistance Loans) have a loan-to-value ratio of 80% or less or be insured by FHA for the unpaid principal amount of the Mortgage Loan, guaranteed by VA, USDA-RD or HUD to the full extent permitted under VA, USDA-RD or HUD regulations, as applicable, without, in the case of VA, any consideration for previously used entitlement. The Board may purchase a Mortgage Loan prior to the issuance of a binding insurance certificate or guaranty if an insurance or guaranty commitment has been issued for the Mortgage Loan and, pursuant to

the Guide, the Mortgage Lender is required to repurchase the Mortgage Loan from the Board in the event the insurance or guaranty is not issued within sixty days. The FHA insurance and VA, USDA-RD and HUD guaranty programs are further described in Appendix A.

Servicing Procedures for Mortgage Loans

Each Mortgage Lender which originates and sells FHA insured, VA or HUD guaranteed or servicing retained USDA-RD Mortgage Loans to the Board may retain servicing rights if the Mortgage Lender was previously approved by the Board as a servicer (a “Servicer”), or in lieu thereof may contract with the Board, to service Mortgage Loans pursuant to the Guide. Such Servicer is in most cases, but need not be necessarily, the Mortgage Lender. The Board may terminate a Servicer at any time.

The Board began purchasing servicing rights for Board mortgage loans from mortgage lenders in February 2012. The Board currently pays .75% of the loan principal amount purchased to lenders choosing not to retain Board loan servicing rights. The Board currently purchases new-loan servicing rights from 32 of its 34 participating lenders and purchased the servicing rights from eleven existing servicers. As of June 30, 2022, the Board was servicing approximately 5,377 loans (3,410 of the Mortgage Loans held under the Trust Indenture).

The Guide requires the Servicers to diligently collect all payments due on Mortgage Loans and deduct therefrom amounts sufficient to establish proper escrow accounts for taxes and insurance, to pay any and all charges owing to FHA, VA, USDA-RD, HUD or the PMI Insurer, and to deduct a monthly servicing fee at the rate of 3/8 of 1% per annum of the outstanding principal amount serviced as its compensation (as provided in the Guide). The balance of funds collected are to be remitted to the Board monthly together with a statement of principal payments, interest payments, prepayments of interest, prepayments of principal, delinquencies and defaults, provided that Servicers are required to remit collected funds to the Board whenever such amounts exceed \$100,000 or collateralize the same. Until paid over to the Board, the funds are to be held in a special trust or custodial account at a financial institution approved by the Board which may be the Servicer.

The Servicers are required to assure that fire and hazard insurance on the mortgaged premises is maintained in an amount such that the face value of the policy on the home plus the appraised value of the land equals or exceeds the Mortgage Loan amount. Stick-built homes must be insured at a minimum for 100% replacement cost. Manufactured homes must be insured for functional replacement or actual cash value. In the event of a loss, a Servicer is to use its best efforts to collect the proceeds of the policies and may itself settle or adjust claims of up to \$1,000.

In the event payments by a mortgagor are not made within 60 days after they become due, the Servicers are to notify the Board, inspect the property and recommend further action. When requested by the Board, the Servicers will institute foreclosure proceedings and take title to the property and attend to the settlement with FHA, VA, USDA-RD, HUD or the PMI Insurer. The Board may alternatively direct the Servicers to settle with FHA, VA, USDA-RD, HUD or the PMI Insurer without foreclosure in accordance with applicable law and rules. The Servicers are required to manage and to protect the property prior to foreclosure.

Each Servicer must maintain an in-state presence and must maintain errors and omissions insurance acceptable to the Board. Each Servicer expressly indemnifies the Board against any loss, damage or expense incurred by reason of any act or failure to act on the part of the Servicers.

Each Servicer is required to promptly notify the Board if it becomes aware of circumstances indicating that the mortgagor may have violated Code eligibility requirements by renting,

selling or otherwise transferring an ownership interest in the property or ceasing to occupy the property as a principal residence.

Other Additional Mortgage Loans

In accordance with the Indenture, the Board may apply amounts received as Prepayments or scheduled principal payments on Mortgage Loans and Mortgage-Backed Securities and the proceeds of any additional Bonds to purchase Additional Mortgage Loans and Mortgage-Backed Securities. Such Additional Mortgage Loans and Mortgage-Backed Securities must satisfy the applicable requirements of the Indenture, the Act and the Code. The terms of such Additional Mortgage Loans and Mortgage-Backed Securities and the eligibility requirement for borrowers and residences will be established by the Board at the time such mortgage loans are to be made.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture, copies of which will be available from the Trustee, contains various covenants and security provisions, some of which are summarized below.

Definitions of Certain Terms

“Accrued Debt Service” means, as of any date of calculation, unless otherwise specified in the Supplemental Indenture with respect to a particular Series of Bonds, an amount equal to the aggregate of the following with respect to each series of Outstanding Bonds: (i) accrued and unpaid interest on the Outstanding Bonds of a series (accrued and unpaid interest shall not include appreciated amount of a deferred interest bond), plus (ii)(A) in the case of a Series of Bonds with Principal Installments scheduled on the first day of a month or months, the amount obtained by dividing the amount of the next succeeding Principal Installment by the number of months elapsed from the immediately preceding Principal Installment payment date to the next succeeding Principal Installment payment date, and then multiplying such amount by the number of full months elapsed since the immediately preceding Principal Installment payment date, and, (B) in the case of Principal Installments due on other dates, the amount obtained by dividing the amount of the next succeeding Principal Installment by the number of days elapsed from the immediately preceding Principal Installment payment date to the next succeeding Principal Installment payment date, and then multiplying such amount by the number of days elapsed since the immediately preceding Principal Installment date.

“Amortized Value,” when used with respect to securities purchased at a premium above or a discount below par, means the value as of any given date obtained by dividing the total amount of the premium or the discount at which such securities were purchased by the number of days remaining to maturity of such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (i) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price and (ii) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

“Authorized Investments” means and includes any of the following securities, if and to the extent the same are at the time of investment specifically permitted investments in accordance with the then-effective written Board-approved investment policy:

- (i) Direct obligations of or obligations guaranteed by the United States of America;
- (ii) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following: Farm Credit System or predecessors (the Federal Land Banks,

Federal Intermediate Credit Banks and Banks for Cooperatives); Federal Home Loan Bank System; Export-Import Bank of the United States; Federal National Mortgage Association; Federal Home Loan Mortgage Corporation; Tennessee Valley Authority; Student Loan Marketing Association; (Federal) Financing Corporation; or the Resolution Funding Corporation;

(iii) Shares of any investment company that (A) is registered under the Investment Company Act of 1940, as amended (including both corporations and Massachusetts business trusts, and including companies for which the Trustee may provide advisory, administrative, custodial or other services for compensation), (B) invests substantially all of its assets in short-term high-quality money-market instruments, limited to obligations issued or guaranteed by the United States, (C) maintains a constant asset value per share and (D) will not adversely affect the Rating Quality of the Bonds;

(iv) Certificates of deposit issued by, or time deposits with, any bank or trust company organized under the laws of the State, any national banking association which is a member of the Federal Reserve System, or any savings and loan association which is a member of the Federal Savings Association Insurance Fund (including the Trustee, a Lender or Paying Agent), provided that any such lender has capital stock, surplus and undivided profits aggregating at least \$1,000,000, and provided further that such time deposits or certificates of deposit, to the extent not insured by the Federal Deposit Insurance Corporation, are fully secured by obligations of the type specified in (i) or (ii) above which have a market value, exclusive of accrued interest, at least equal to the amount of such deposits, provided that (at the time the investment is made) in no case shall the same adversely affect the Rating Quality of the Bonds; and

(v) Repurchase agreements or guaranteed investment agreements, fully collateralized as to both principal and interest by obligations of the type specified in (i) or (ii) above and which collateral is held by the Trustee or its agent, with any bank (including the subsidiary of a foreign bank) or insurance company organized under the laws of the United States of America or any state thereof and subject to supervision by the appropriate authorities of either the United States of America or the state under whose laws it is organized, or any other financial institution organized under the laws of the United States of America or any state thereof, provided that (at the time the investment is made) in no case shall the same adversely affect the Rating Quality of the Bonds,

provided that is expressly understood that the definition of Authorized Investments may be, and be deemed to be, expanded, or new definitions and related provisions may be added to the Indenture, by a Supplemental Indenture, thus permitting investments with different characteristics from those permitted above which the Board deems from time to time to be in the interest of the Board to include as Authorized Investments if at the time of inclusion such inclusion will not, in and of itself, adversely affect the Rating Quality of the Outstanding Bonds.

“Bondholder” or “Holder” or “Holders of Bonds” or similar term, when used with respect to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond.

“Bond Payment Date” means each date on which interest or both Principal Installments and interest shall be payable on any of the Bonds according to their respective terms.

“Bond Year” means the twelve month period beginning on June 2 in any year and ending on June 1.

“Government Obligations” means and includes direct general obligations of the United States of America or obligations the payment of principal or interest on which is fully and unconditionally

guaranteed by the United States of America (including those the payment of principal or interest on which, in the opinion of the Attorney General of the United States, is so fully and unconditionally guaranteed). This shall include custodial receipts evidencing ownership of future interest payments only, on bonds issued by the Financial Corporation, a mixed-ownership government corporation, chartered by the Federal Home Loan Bank Board pursuant to the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987, provided the same are rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s.

“Outstanding,” when used with respect to Bonds, means, as of any date, all bonds theretofore authenticated and delivered under the Indenture except:

- (i) any bond cancelled or delivered to the Trustee for cancellation on or before such date;
- (ii) any bond in lieu of or in exchange for which another Bond shall have been authenticated and delivered; and
- (iii) Bonds deemed to have been paid.

“Prepayment” means any payments on the Mortgage-Backed Securities other than regularly scheduled principal and interest payments, and any moneys received or recovered by the Board from any payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan) on any Mortgage Loan other than the scheduled payments of principal called for by such Mortgage Loan, whether (i) by voluntary prepayment made by the mortgagor, (ii) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof, (iii) in the event of a default thereon by the mortgagor, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Board or by any other proceedings taken by the Board, including, without limitation, payments received from any private mortgage insurer and (iv), unless otherwise specified in the related Supplemental Indenture authorizing a Series of Bonds, amounts received or transferred to the Board as a result of the sale, assignment, endorsement or disposition of a Mortgage Loan or Mortgage-Backed Security.

Nothing in the preceding definition shall be construed to constitute a Prepayment in the event that the Board makes a good-faith substitution of a Mortgage Loan for another Mortgage Loan or in the event the Board authorizes a mortgagor to apply the proceeds of hazard insurance to restore the mortgaged premises.

A Prepayment shall not include any moneys received or recovered by the Board with respect to any Mortgage Loan to the extent that delinquencies or defaults of payments of principal on such Mortgage Loan required that moneys be withdrawn from the Debt Service Reserve Fund to pay principal on the Bonds.

“Principal Installment” means, as of any date of calculation (i) the principal amount of all Bonds (in the case of deferred interest bonds, the appreciated amount thereof) due on a specified date with respect to which no Sinking Fund Installments have been provided, plus (ii) any Sinking Fund Installments due on such specified date.

“Program Expenses” means all the Board’s expenses of administering the Program under the Indenture and the Act and shall include without limiting the generality of the foregoing: salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus; insurance premiums, legal, accounting, management, consulting and banking services and expenses; the fees and expenses of the Trustee, any Depositories and Paying Agents; Costs of Issuance not

paid from proceeds of Bonds; and payments to pension, retirement, health and hospitalization funds; and any other expenses required or permitted to be paid by the Board under the provisions of the Indenture and any Supplemental Indenture all to the extent properly allocable to the Program.

“Reserve Equivalent” means a letter of credit, insurance policy, surety, guarantee or other security arrangement (as defined and provided for in a Supplemental Indenture), which Reserve Equivalent shall have such terms necessary to maintain the Rating Quality on the Bonds.

“Series of Bonds” or “Bonds of a Series” means any Series of Bonds issued pursuant to a Supplemental Indenture.

“Supplemental Indenture” means any Supplemental Indenture executed and delivered by the Board and the Trustee in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

Provisions for the Issuance of Bonds

The Indenture authorizes Bonds to be issued from time to time in accordance with its terms without limitations as to amount except as may be provided by law. The Bonds of each series may be authenticated and delivered only upon delivery to the Trustee of, among other things:

- (i) an opinion of counsel selected by the Board to the effect that, among other things, the Bonds of such series have been duly and validly authorized and are valid and binding general obligations of the Board;
- (ii) the amount, if any, necessary for deposit in (a) the Debt Service Reserve Fund so that the amount in such Fund shall at least equal the Debt Service Reserve Requirement calculated immediately after the delivery of such Series of Bonds and (b) the Special Reserve Fund;
- (iii) a certificate to the effect that, upon the issuance of such Series of Bonds, no event of default under the Indenture nor an event which with notice or the lapse of time or both would become an event of default has occurred and is continuing;
- (iv) A Cash Flow Certificate taking into account the issuance of the Bonds and the Mortgage Loans or Mortgage-Backed Securities reasonably expected to be financed with the proceeds of such Bonds and projecting Revenues sufficient to pay Program Expenses and Accrued Debt Service when due in each Bond Year;
- (v) Written verification from each Rating Agency (i) that the rating on such Series of Bonds is not lower than the Rating Quality of the Bonds Outstanding prior thereto, or (ii) to the effect that the issuance of such Series of Bonds will not, in and of itself, adversely affect the Rating Quality of any Outstanding Bonds of any prior Series of Bonds; and
- (vi) If such Series of Bonds is to have the benefit of a liquidity facility or be secured by credit enhancement, the executed liquidity facility or credit enhancement or evidence that all conditions precedent to the issuance of such liquidity facility or credit enhancement have been met as of the date of issuance of such Series of Bonds.

The Board shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Board or by any Fiduciary under the Indenture and shall not create or cause to be

created any lien or charge on the Revenues or such moneys, securities, rights or interests; provided, however, that nothing in the Indenture shall prevent the Board from (a) issuing evidences of indebtedness secured by a pledge of Revenues to be derived after the pledge of the Revenues provided in the Indenture shall be discharged and satisfied, (b) issuing notes or bonds of the Board not secured under the Indenture or secured by a pledge or lien on amounts related from the lien of the Indenture, (c) issuing notes or bonds of the Board not initially secured under the Indenture or secured by amounts in the Special Reserve Fund, but convertible to Bonds secured thereunder upon satisfaction of the requirements of the Indenture, or (d) creating equal or superior liens on part or all of the assets in the Special Reserve Fund as and to the extent permitted by the Indenture.

Application of Bond Proceeds

Upon the delivery of each Series of Bonds the amounts necessary to cause the amounts on deposit in the Debt Service Reserve Fund to at least equal the Debt Service Reserve Requirement immediately after such delivery are required to be deposited in the Debt Service Reserve Fund. Proceeds of each Series of Bonds which are not deposited in such Funds or the Revenue Fund for the payment of capitalized interest and costs of issuance are to be deposited in the Program Fund.

Any premium received above the aggregate principal amount of the Bonds of any Series or as the proceeds of a refunding issue will be applied as provided in the supplemental indenture authorizing the issuance of such Series.

Establishment of Funds and Accounts

The Indenture establishes the following Funds to be held by the Trustee in trust for application in accordance with the Indenture:

- (i) Program Fund;
- (ii) Revenue Fund;
- (iii) Debt Service Reserve Fund;
- (iv) Special Reserve Fund; and
- (v) Redemption Fund.

The Board may direct the Trustee to establish subaccounts within any of such Funds, and, to the extent necessary to comply with the Board's tax covenants, the Board shall also direct the establishment of a Rebate Account.

Program Fund

In addition to proceeds of a Series of Bonds, the Indenture requires the deposit to the Program Fund of all Prepayments of Mortgage Loans; provided, (a) a Supplemental Indenture may provide that all or a portion of the proceeds of Prepayments of Mortgage Loans or any Mortgage-Backed Security financed from the proceeds of such Series of Bonds or from Mortgage Loans or any Mortgage-Backed Security financed from such Prepayments received in any Bond Year, or any part thereof, shall be deposited in the Program Fund or the Redemption Fund, in which event, Prepayments received in each Bond Year shall be deposited in the Program Fund or the Redemption Fund, as the case may be, until such time as the amount of Prepayments so deposited shall equal the aggregate of the amounts which have been specified in all Supplemental Indentures to be so deposited, and (b) any moneys received as a consequence of

damage, destruction or condemnation of any property securing a Mortgage Loan may, at the option of the Board, be used to repair or restore such property, provided that the Mortgage Loan continues to be insured or guaranteed to the extent required by any Supplemental Indenture.

Amounts in the Program Fund are to be expended for the purchase of Mortgage Loans or Mortgage-Backed Securities (or to pay or provide for the payment of notes or bonds issued for such purpose), and may also be used to pay reasonable and necessary costs of issuance of Bonds. Amounts in the Program Fund may also be transferred to the Redemption Fund for the redemption or purchase of Bonds. The Board may direct that amounts on deposit in the Program Fund be transferred to the Special Reserve Fund or released to the Board for housing programs free and clear of the lien of the Indenture as described under “Security For and Sources of Payment of the Bonds--Cash Flow Certificates; Parity Certificates.”

Revenue Fund

All Revenues, except Prepayments required to be deposited in the Program Fund, are to be deposited in the Revenue Fund. The Trustee is required to make payments out of the Revenue Fund to the Paying Agent as follows: (i) on or before each Bond Payment Date, the amounts required for the payment of Principal Installments, if any, and interest due on the Bonds on such due date and (ii) on or before the purchase or redemption date, the amounts required for the payment of accrued interest on Bonds redeemed or purchased for retirement.

The Board may requisition moneys from the Revenue Fund at any time for the payment of Program Expenses.

On any Bond Payment Date or on such other date or dates as directed by the Board, the Trustee shall withdraw from the Revenue Fund the balance of any moneys remaining therein in excess of Accrued Debt Service and deposit such balance to the credit of the following several Funds or Accounts the following amounts in the following order of priority:

First, to the credit of the Debt Service Reserve Fund, the amount, if any, needed to increase the amount in such Fund to equal the Debt Service Reserve Requirement;

Second, if so directed by the Board, to the credit of the Redemption Fund to be used to redeem a like amount of Bonds; and

Third, to the credit of the Program Fund, the amount remaining in the Revenue Fund as of such date, unless the Board shall have filed with the Trustee (i) a Cash Flow Certificate projecting Revenues sufficient to pay Program Expenses and Accrued Debt Service when due in each Bond Year and (ii) a Parity Certificate, in which case the Trustee may, upon receipt of a Board Request, transfer such remaining amount or any part thereof to the Special Reserve Fund or to the Board, free and clear of the lien or pledge created by the Indenture, for any housing programs of the Board.

Debt Service Reserve Fund

If on any Bond Payment Date all amounts otherwise available for the payment of Debt Service on the Bonds as described under “Withdrawals from Funds” below are insufficient for such purpose, the Trustee is to apply amounts from the Debt Service Reserve Fund to the extent required to make good the deficiency. Moneys on deposit in the Debt Service Reserve Fund may also be withdrawn to pay taxes, insurance, foreclosure fees, including appraisal and legal fees, repairs to the residence and similar expenses incurred by the Board in connection with any protection and enforcement of its rights with respect

to any Mortgage Loan. On such date or dates as the Board shall direct, the Trustee shall (i) calculate the amount of the Debt Service Reserve Requirement as of the next succeeding day and shall determine the amount, if any, which would then be in the Debt Service Reserve Fund (other than amounts attributable to income on Authorized Investments) in excess of such Requirement (assuming the payment when due of the interest and Principal Installments on all Bonds Outstanding), and (ii) upon receipt of a Board request, transfer all or a specified portion of such excess to the Revenue Fund, or to any other Fund (except the Special Reserve Fund) upon the direction of the Board.

Redemption Fund

Moneys transferred to the Redemption Fund must be applied by the Trustee to the purchase or redemption of Bonds in accordance with the Indenture and the Board's directions.

Special Reserve Fund

The Trustee shall deposit in the Special Reserve Fund any securities, loans or other property not otherwise pledged under the Indenture. Any interest or income earned with respect to any investments of amounts in the Special Reserve Fund shall be retained in the Special Reserve Fund or released to the Board, except as otherwise provided in the Indenture.

If on any date payments are required to be made from the Revenue Fund and there are not sufficient funds in the Revenue Fund to make such payments, the Trustee shall withdraw (i) from the Special Reserve Fund amounts restricted for transfer to the Revenue Fund and (ii) to the extent necessary, from the unrestricted amounts in the Special Reserve Fund, and transfer to the Revenue Fund such available amounts as are necessary to provide sufficient funds for the required transfers from the Revenue Fund.

At any time, at the direction of the Board, the Trustee shall withdraw from the Special Reserve Fund and pay to the Board, free and clear of the lien of the Indenture, such amounts, securities, loans or other property as shall be specified therein, including any interest or income earned thereon, unless otherwise restricted by a Supplemental Indenture.

The Board may create a lien on all or any part of the moneys, investments or assets held in the Special Reserve Fund, and not otherwise restricted by a Supplemental Indenture or previous Board request, to secure any obligation of the Board, and, if so specified in such Board request, such lien shall be prior to the lien on the otherwise unrestricted moneys, investments or assets in the Special Reserve Fund granted by the Indenture to the Trustee in favor of the Outstanding Bonds.

Withdrawals from Funds

If on any Bond Payment Date and before applying moneys in the Debt Service Reserve Fund, the amount in the Revenue Fund is less than the amount of the Accrued Debt Service becoming due and payable on such Bond Payment Date on all Outstanding Bonds, the Trustee shall transfer from the following Funds and Accounts in the following order the amount of such deficit and apply such amount to pay Accrued Debt Service as necessary:

- (a) Special Reserve Fund (but only from amounts restricted for transfer to the Revenue Fund),
- (b) Special Reserve Fund (from amounts not restricted),
- (c) Redemption Fund, and

(d) Program Fund;

provided, however, that moneys in (i) the Redemption Fund which are to be used to redeem Bonds as to which notice of redemption has been published or (ii) the Program Fund which are to be used to purchase or finance Mortgage Loans or Mortgage-Backed Securities with respect to which the Board has entered into commitments or (iii) the Special Reserve Fund previously restricted for other purposes by a Supplemental Indenture or Board request shall not be deemed available for transfer to the Revenue Fund, nor shall Mortgage Loans or Mortgage-Backed Securities credited to the Program Fund be deemed available for such purpose, and provided further that prior to withdrawing any moneys from the Program Fund the Board shall file with the Trustee a Cash Flow Certificate giving effect to such withdrawal, which shall project Revenues sufficient to pay Program Expenses and Accrued Debt Service when due in each Bond Year and notify the Rating Agencies of such withdrawal.

Deposits and Investments

All moneys held by the Trustee in Funds and Accounts under the Indenture are to be invested by the Trustee upon written direction of the Board in the Authorized Investments. The maturity or redemption dates at the option of the holder of Authorized Investments are to coincide as nearly as practicable with the times at which moneys in said Funds and Accounts will be required for the purposes provided in the Indenture; provided that if the amount of the annual budget is transferred to the State Treasurer pursuant to the Indenture, the Trustee shall not be required to track the investment thereof and said amount may be invested in any investments permitted for State funds. In computing the amount in any Fund or Account held by the Trustee under the provisions of the Indenture, Authorized Investments therein shall be valued at par if purchased at par or, if purchased at other than par, at their Amortized Value. To the extent that moneys are invested pursuant to an Authorized Investment that permits the same to be liquidated (or moneys invested therein to be withdrawn) at any time at par, such Authorized Investment shall be valued at par. Any Reserve Equivalent shall be valued at par.

Payment of Bonds

The Board covenants that it will duly and punctually pay or cause to be paid the principal and redemption price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof, and will duly and punctually pay or cause to be paid all Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds.

Powers as to Bonds and Pledges

The Board covenants that it is duly authorized pursuant to law to authorize and issue the Bonds and to execute and deliver the Indenture and to pledge the Revenues purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture.

Budgets and Accounts

The Board shall keep or cause to be kept proper books and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions and the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Board, and such Funds and Accounts shall at all times be subject to inspection during the Board's regular business hours by the Trustee and the Bondholders holding an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Board is also required to file with the Trustee and each Rating Agency the results of its operation and cash flows for the year in conformity with generally accepted accounting principles, together with a report with respect thereto of an independent certified public accountant.

Tax Covenants

The Board shall take no action which may render interest on the Bonds subject to inclusion in gross income for federal income tax purposes and shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Board on the Bonds shall not be includable in gross income for federal income tax purposes. Notwithstanding this fact, the Board has reserved the right to elect to issue Bonds the interest on which is not exempt from federal income taxation; if such election is made prior to the issuance of such Bonds, then the covenant described above will not apply to such Bonds.

Events of Default

Each of the following events is an “event of default” under the Indenture:

(a) The Board shall fail to pay any Principal Installment or the redemption price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(b) The Board shall fail to pay any installment of interest on any Bond when and as the same shall become due and payable;

(c) The Board shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Indenture or in the Bonds, and such failure is not remedied after notice thereof as described below; or

(d) The Board shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State, or if the State has impaired, limited or altered the rights of the Board pursuant to the Act, as in force on the date of the Indenture, to fulfill the terms of any agreements made with the holders of Bonds, including but not limited to the agreements contained in the Indenture to administer the Program and to employ a staff sufficient and competent for such purpose, or in any way impaired the rights and remedies of holders of Bonds while any Bonds are Outstanding.

No default under paragraph (c) above shall constitute an event of default until actual notice of such default by first class mail (postage prepaid) shall be given to the Board by the Trustee or by the holders of not less than 25% in aggregate principal amount of all Bonds Outstanding and the Board shall have had 60 days after receipt of such notice to correct said default or cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period; provided, however, if said default be such that it cannot be corrected within the applicable period, it shall not constitute an event of default if corrective action is instituted by the Board within the applicable period and diligently pursued until the default is corrected.

Remedies

Upon the occurrence of an event of default, the Trustee may and, upon the written request of the Holders of at least a majority (and in the case of a default described in paragraph (c) or (d) under “Events of Default” above, 100%) in aggregate principal amount of the Bonds Outstanding, shall give

30 days' notice in writing to the Governor and the Attorney General of the State and the Board of its intention to declare all Bonds Outstanding immediately due and payable. At the end of such 30-day period the Trustee may, and upon such written request of such required number of Bondholders shall, by notice in writing to the Board, declare all Bonds Outstanding immediately due and payable; then such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may, and upon the written direction of the Holders of not less than 25% in aggregate principal amount of the Bonds Outstanding shall, annul such declaration and its consequences with respect to any Bonds not then due by their terms if (i) moneys shall have been deposited in the Revenue Fund sufficient to pay all matured installments of interest and principal or redemption price (other than principal then due only because of such declaration) of all Outstanding Bonds; (ii) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any paying agents; (iii) all other amounts then payable by the Board under the Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every event of default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the occurrence and continuance of an event of default, the Trustee may, and upon the written request of the holders of not less than 25% in the aggregate principal amount of the Bonds Outstanding, together with indemnification satisfactory to the Trustee, shall, proceed to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, may deem expedient.

No remedy conferred upon or reserved to the Trustee by the terms of the Indenture is intended to be exclusive of any other available remedy, but each and every available remedy is cumulative and in addition to any other remedy available under the Indenture or existing at law or in equity or by statute.

During the continuance of an event of default, the Trustee shall apply such moneys, securities, Revenues, payments and receipts and the income therefrom as follows and in the following order:

- (i) To the payment of the reasonable and proper charges of the Trustee, which may include reasonable attorney and other fees;
- (ii) To the payment of the interest and Principal Installments or redemption price then due on the Bonds, as follows:
 - (A) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or

installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

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

(B) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

(iii) To the payment of the amounts required for reasonable and necessary Program Expenses.

Limitation on Rights of Bondholders

No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or in law for the enforcement of the Indenture or for the execution of any trust thereunder or for any remedy under the Indenture unless:

(i) an event of default has occurred (A) as described in paragraph (a) or (b) under “Events of Default” above, (B) as to which the Trustee has actual notice or (C) as to which the Trustee has been notified in writing;

(ii) the Holders of at least 25% in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name;

(iii) such Bondholders shall have offered the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee shall have failed or refused to exercise the powers granted in the Indenture or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner provided in the Indenture and for the equal benefit of the Holders of all Bonds Outstanding.

Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or

prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, funds and properties pledged under the Indenture for the equal and ratable benefit of all Holders of Bonds.

Compensation of Trustee

The Board is required to pay reasonable compensation to the Trustee and to each paying agent for all services rendered under the Indenture, and also reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in the performance of their powers and duties under the Indenture, and the Trustee and each paying agent shall have a lien therefor on any and all funds at any time held by them under the Indenture.

Removal of Trustee

The Trustee is required to be removed if so requested by the Holders of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board. The Board may remove the Trustee at any time, except during the existence of an event of default, for such cause as the Board may determine in its sole discretion. In either such event a successor is required to be appointed.

Powers of Amendment

Any modification or amendment of any provision of the Indenture or of the rights and obligations of the Board and of the Holders of the Bonds may be made by a Supplemental Indenture, with the written consent given as provided in the Indenture (i) of the Holders of at least two-thirds in principal amount of the outstanding Bonds at the time such consent is given and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each Series so affected, except that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain outstanding the consent of the Holders of such Bonds is not required. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the Holder of such Bond or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the Holders of which is required to effect any such modification or amendment.

Without the consent of or notice to any of the Bondholders, the Board and the Trustee may enter into one or more Supplemental Indentures, not inconsistent with the terms and provisions hereof, or any one or more of the following purposes:

(a) To authorize Bonds of a Series and, in connection therewith, to specify and determine the matters and things referred to in the Indenture and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(b) To close the Indenture or any Supplemental Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture or any Supplemental Indenture on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(c) To add to the covenants and agreements of the Board in the Indenture or any Supplemental Indenture other covenants and agreements to be observed by the Board which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(d) To add to the limitations or restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Board which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(e) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the Revenues or of any other moneys, securities or funds;

(f) To modify any of the provisions of the Indenture or any Supplemental Indenture in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(g) To cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture or any Supplemental Indenture;

(h) To insert such provisions clarifying matters or questions arising under the Indenture or any Supplemental Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture theretofore in effect; or

(i) To make any change which, in the judgment of the Trustee (which, with respect to matters affecting the security for the Bonds, may conclusively rely upon written evidence from each Rating Agency, that such change will not adversely affect the Rating Quality of the Bonds), is not to the material prejudice of the Bondholders.

Discharge

If the Board pays or causes to be paid to the Holders of the Bonds or any Series of Bonds the principal and interest and redemption price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Indenture, the Bonds so paid will cease to be entitled to any lien, benefit or security under the Indenture and all obligations of the Board to the holders of such Bonds will be discharged and satisfied.

Bonds Deemed Paid

Any Bond shall be deemed to be paid for all purpose of the Indenture and any Supplemental Indenture when payment of the principal amount of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Indenture), either (i) shall have been made or caused to be made in accordance with the terms thereof or (ii) shall have been provided by irrevocably depositing with the Trustee, in trust and irrevocably set aside for such payment (A) moneys sufficient to make such payment and/or (B) Government Obligations (which may be subject to redemption prior to maturity, provided that in such case it shall be assumed that such Government Obligations are redeemed at their earliest possible redemption date) maturing as to principal

and interest in such amount and at such time as will ensure the availability of sufficient moneys to make such payment. At such times as a Bond shall be deemed to be paid under the Indenture, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENT

Definitions

“EMMA” means the Electronic Municipal Market Access system for municipal securities disclosure of the MSRB available at www.emma.msrb.org.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means paragraph (b) (5) of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act of 1934.

Transmission of Notices, Documents and Information

Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, in such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

Annual Financial Information and Operating Data

The Board, as the “obligated person” for purposes of the Rule, agrees to provide or cause to be provided at least annually to the MSRB in Prescribed Form, financial information and operating data, as of the end of the Board’s fiscal year, regarding the Board and the Single Family Program of the type set forth in this Official Statement under the following captions or in the following Appendices (or portions thereof):

| | |
|--------------|--|
| Inside Cover | Bonds of each maturity originally issued and still outstanding. |
| Page 2 - | Table of Bonds issued. |
| Page 8 - | Origination status of undisbursed 2022 Series C Bond proceeds from the Program Fund. |
| Page 29 - | Existing Mortgage Loan Portfolio General Table. |
| Page 30 - | Existing Mortgage Loan Portfolio Delinquency Statistics. |
| Page 31 - | Existing Mortgage Loan Portfolio Loan Insurance Table. |
| Appendix C | Financial Statements. |

The financial and operating information described above will be filed no later than 180 days after the end of the Board’s fiscal year. Such information will include audited financial statements prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time; provided, however, that if audited financial statements are not available within 180 days after

the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow within 10 business days after availability to the Board. The Board may provide additional or more current information if it so desires.

The financial and operating information described above shall be provided at least annually notwithstanding a fiscal year longer than 12 calendar months. The Board may change its current fiscal year, but must promptly notify the MSRB of each such change.

All or any portion of the annual financial and operating information may be provided by way of cross-reference to other documents previously provided to the MSRB or available to the public on EMMA or filed with the U.S. Securities and Exchange Commission. If the cross referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

Failure to File Annual Financial and Operating Information

The Board agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Board to provide the annual financial and operating information described above on or prior to the date specified above.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Board will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

Material Events

The Board agrees to provide or cause to be provided, in a timely manner, not in excess of ten business days after the occurrence of such event, to the MSRB notice of the occurrence of any of the following events with respect to the 2022 Series C Bonds:

- a. principal and interest payment delinquencies;
- b. nonpayment related defaults, if material;
- c. unscheduled draws on debt service reserves reflecting financial difficulties;
- d. unscheduled draws on credit enhancements reflecting financial difficulties;
- e. substitution of credit or liquidity providers, or their failure to perform;
- f. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2022 Series C Bonds, or other material events affecting the tax status of the 2022 Series C Bonds;
- g. modifications to rights of the holders of the 2022 Series C Bonds, if material;
- h. 2022 Series C Bond calls, if material, and tender offers;
- i. defeasances;

- j. release, substitution, or sale of property securing repayment of the 2022 Series C Bonds, if material;
- k. rating changes;
- l. bankruptcy, insolvency, receivership or similar event of the Board[†];
- m. the consummation of a merger, consolidation or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- n. appointment of a successor or additional trustee or the change of name of a trustee, if material;
- o. incurrence of a Financial Obligation^{††} of the Board, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Board, any of which affect holders of the 2022 Series C Bonds, if material; and
- p. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Board, any of which reflect financial difficulties.

Each material event notice shall be so captioned and shall prominently state the date, title and (to the extent less than all of the 2022 Series C Bonds are effected by the related material event) CUSIP numbers of the 2022 Series C Bonds.

The Board may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the Board does not undertake any commitment to provide such notice of any event except those events listed above.

Dissemination Agent

The Board may, from time to time, engage or appoint an agent to assist the Board in disseminating information hereunder (the “Dissemination Agent”). The Board may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent.

[†] This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board.

^{††} “Financial Obligation” means a (A) debt obligation, (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (C) guarantee of (A) or (B); but shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Termination of Obligations

The Board's obligation to provide annual financial and operating information and notice of material events, as set forth in the Continuing Disclosure Agreement, shall terminate if and when the Board no longer has any legal liability for any obligation on or relating to repayment of the 2022 Series C Bonds.

Enforceability and Remedies

The Continuing Disclosure Agreement is intended to be for the sole benefit of the holders of the 2022 Series C Bonds (for such purpose beneficial owners of the 2022 Series C Bonds shall also be considered holders of the 2022 Series C Bonds) and the Underwriters and shall create no rights in any other person or entity (except the Trustee, and then only as set forth below).

The Continuing Disclosure Agreement shall be enforceable by or on behalf of any such holder of the 2022 Series C Bonds, provided that the right of any Bondholder to challenge the adequacy of the information furnished pursuant to the Continuing Disclosure Agreement shall be limited to an action by or on behalf of 2022 Series C Bondholders representing at least twenty five percent (25%) of the aggregate outstanding principal amount of the 2022 Series C Bonds. The Continuing Disclosure Agreement is also enforceable on behalf of the holders of the 2022 Series C Bonds by the Trustee, and the Trustee may, and upon the written direction of the owners of not less than twenty five percent (25%) of the aggregate outstanding principal amount of the 2022 Series C Bonds or any Underwriter shall, proceed to protect and enforce the rights of the owners of the 2022 Series C Bonds pursuant to the Continuing Disclosure Agreement; provided that in all cases the Trustee shall be entitled to the indemnification and other provisions of the Indenture with regard to any actions, and prior to proceeding at the request or direction of the Underwriter the Trustee may require the same types of indemnification and related protections from the Underwriter to which the Trustee would otherwise be entitled under the Indenture if so requested or directed by the Bondholders. Any failure by the Board to comply with the provisions of the Continuing Disclosure Agreement shall not be an Event of Default under the Indenture.

The 2022 Series C Bondholders' and the Trustee's rights to enforce the provisions of the Continuing Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Board's obligations under the Continuing Disclosure Agreement and the Board, its members, officers and employees shall incur no liability under the Continuing Disclosure Agreement by reason of any act or failure to act thereunder. Without limiting the generality of the foregoing, neither the commencement nor the successful completion of an action to compel performance shall entitle the Trustee or any other person to attorney's fees, financial damages of any sort or any other relief other than an order or injunction compelling performance; provided that the Trustee shall nevertheless be entitled to attorney's fees and such other rights and amounts as provided in the Indenture.

Amendment

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Board may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if:

- (1) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Board, or type of business conducted;

(2) The Continuing Disclosure Agreement, as amended, or with the provision so waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(3) The amendment or waiver does not materially impair the interest of holders of the 2022 Series C Bonds, as determined either by parties unaffiliated with the Board (such as the Trustee) or by approving vote of holders of the 2022 Series C Bonds holding a majority of the aggregate principal amount of the 2022 Series C Bonds (excluding Bonds held by or on behalf of the Board) pursuant to the terms of the Indenture at the time of the amendment; and

(4) The amendment or waiver is otherwise permitted by the Rule.

The Board shall provide notice of each amendment or waiver to the MSRB. The initial annual financial or operating information provided by the Board after the amendment or waiver shall explain, in narrative form, the reasons for the amendment or waiver and the effect of the change in the type of operating data or financial information being provided.

TAX STATUS

Bond Counsel will, at the time of issuance of the 2022 Series C Bonds, deliver an opinion that under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2022 Series C Bonds is excluded from gross income for federal income tax purposes. Bond Counsel will opine that interest on the 2022 Series C Bonds is not a preference item for purposes of the federal alternative minimum tax imposed on individuals. For tax years beginning after December 31, 2022, interest on the 2022 Series C Bonds may affect the federal alternative minimum tax imposed on certain corporations.

Bond Counsel will further opine that, under the Act, interest on the 2022 Series C Bonds is free from taxation by the State of Montana, or any political subdivision or any other instrumentality of the State of Montana, except for inheritance, estate, gift and corporate license taxes.

The PAC Bonds (“Premium Bonds”) are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes original issue premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium in accordance with the provisions of Section 171 of the Code. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning a Premium Bond.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the 2022 Series C Bonds. The Board has covenanted in the Indenture and the Guide to comply with such restrictions, conditions and requirements which are designed to assure that interest on the 2022 Series C Bonds will not become includable in the gross income of the recipient thereof for federal income tax purposes. Failure to comply with such covenants may result in interest on the 2022 Series C Bonds being included in gross income from the date of issue of the 2022 Series C Bonds. The opinion of Bond Counsel assumes compliance by the Board with such covenants and the enforcement by the Board of the Indenture and the Guide. Bond Counsel is of the opinion that the agreements, affidavits and other procedures set forth in the Indenture and the Guide are sufficient to enable the Board to comply with the applicable requirements of

Section 143 of the Code. See the discussion below of “Mortgage Loan Eligibility Requirements Imposed by the Code.”

Mortgage Loan Eligibility Requirements Imposed by the Code. The Code contains the following mortgage loan eligibility requirements which are applicable to mortgage loans financed by the proceeds of the 2022 Series C Bonds. Additional requirements may be imposed by the Board. See also “Single Family Program – Mortgage Loan Eligibility Requirements.”

Residence Requirement. Each residence financed with proceeds of the 2022 Series C Bonds must be a one-to-four family residence, one unit of which can reasonably be expected to become the principal residence of the borrower within a reasonable time after the financing is provided. In the case of a two-to-four family residence, the residence must have been occupied as a residence at least five years before the mortgage is executed. The Board requires in the Guide that each borrower must submit an affidavit stating such person’s intention to occupy the premises as his principal residence within 60 days after closing of the Mortgage Loan. In the case of a two-to-four family residence the borrower will be required to certify that the residence was first occupied as a residence at least five years before the mortgage loan was executed.

First-time Homebuyer Requirement. Ninety-five percent or more of the net proceeds of the 2022 Series C Bonds (counting toward the 95% amount, those proceeds used to make mortgage loans in targeted areas) must be used to provide financing to borrowers who have not had a present ownership interest in their principal residence (other than the residence being financed) during the three-year period prior to execution of the mortgage loan (mortgage loans in targeted areas, loans to certain veterans of the United States armed services and certain qualified rehabilitation mortgage loans do not need to meet this requirement). Borrowers subject to this requirement must certify, when applying to a Mortgage Lender for a Mortgage Loan, that they have had no present ownership interest in a principal residence during the three-year period ending on the date of execution of the mortgage to be financed by the Board. The Guide requires that the Mortgage Lender make a reasonable investigation to verify such certification. Borrowers subject to this requirement are required to provide appropriate certifications to allow the Mortgage Lender to verify that no deductions or other entries have been made which would indicate any ownership interest.

New Mortgage Requirement. With certain limited exceptions, no part of the proceeds of the 2022 Series C Bonds may be used to acquire or replace an existing mortgage. The Board will verify compliance with the new mortgage requirement by requiring each borrower and the seller of the residence to certify, subject to such exceptions, that no refinancing of a prior mortgage is being effected.

Purchase Price Limitation. The purchase price of the residence in the case of mortgages acquired with proceeds of the 2022 Series C Bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price if the residence is located in a targeted area. The sales price limitations imposed by the Board in every instance comply with the requirements of the Code. The Board will verify compliance with the purchase price limitations by requiring each borrower of the residence to make certifications regarding the purchase price of the residence.

Income Requirements. For mortgage loans acquired with the proceeds of the 2022 Series C Bonds, the family income of the mortgagor may not exceed 115% (100% in the case of one or two person families) of the applicable median family income. An exception is provided for mortgage loans made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (120% in the case of one or two person families) of the applicable median family income and one-third in aggregate amount of such loans to be made without regard to any income limitation. In addition, certain income limit adjustments

are allowed for “high housing cost areas.” The Board will verify compliance with these requirements by requiring each borrower to certify as to the amount of his or her family income.

Other Requirements as to Assumptions. A mortgage loan acquired with the proceeds of the 2022 Series C Bonds may be assumed only if the residence requirement, first-time homebuyer requirement, purchase price limitation and income requirement are met with respect to such assumption. The mortgage loans will contain a “due on sale” clause, and the Board will not permit the assumption of a mortgage loan unless it has determined that these requirements have been met and has obtained the appropriate certifications.

Other Requirements Imposed by the Code. The Code provides that interest on the 2022 Series C Bonds is excluded from gross income for federal income tax purposes if the 2022 Series C Bonds meet applicable requirements contained therein. Among such requirements is the requirement that the 2022 Series C Bonds be a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applicable to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance owner-occupied residences within 42 months of the date of issuance of the bonds. The issue must also meet (i) general requirements, (ii) arbitrage restrictions on the use of proceeds of the issue and (iii) mortgage eligibility requirements all as set forth in the Code as more fully described in the preceding subsection and above in “Single Family Program -- Mortgage Loan Eligibility Requirements.”

The first general Code requirement applicable to the Board’s program is that the aggregate amount of private activity bonds that may be issued by the Board in any calendar year must not exceed the portion of the private activity bond volume limit for the State for such calendar year allocated to the Board. An issuer of qualified mortgage bonds is also required to file reports on the issuance, if any, of its qualified mortgage bonds. The Board has covenanted to establish procedures to enable it to meet these reporting requirements.

The second general Code requirement applicable to the Board’s program is that at least 20% of the lendable proceeds of the 2022 Series C Bonds (or such lesser amount as is permitted by the Code) must be made available (and applied with reasonable diligence) for owner-financing of residences in Targeted Areas for at least one year after the date on which such funds are first available for such owner-financing. The Board will allocate and reserve lendable proceeds of the 2022 Series C Bonds for owner-financing of Targeted Area residences, in an amount and for the period required by the Code. The Board will advertise the availability of such funds for financing of Targeted Area residences.

“Targeted Areas” are defined in the Code to include census tracts with population and income characteristics specified in the Code and other areas of chronic economic distress meeting criteria set forth and approved as Targeted Areas by the Secretaries of the United States Department of the Treasury and Department of Housing and Urban Development. A listing of “qualified census tracts” published by the United States Department of the Treasury on January 6, 2014 indicates that five census tracts in the State qualify as Targeted Areas under the Code. In addition to such census tracts, the Secretaries of the Department of the Treasury and Department of Housing and Urban Development have approved the designation by the Board of eight counties in the State (Blaine, Deer Lodge, Flathead, Hill, Mineral, Missoula, Sanders and Silver Bow) and the City of Great Falls, Montana as Targeted Areas. The combined population of all such Targeted Areas is equal to approximately 35% of the population of the State.

Section 143(g) of the Code requires that the effective yield on the mortgage loans or portions thereof financed with the proceeds of the 2022 Series C Bonds may not exceed the yield on the 2022 Series C Bonds by more than 1.125% per annum.

The 2022 Series C Bonds will be treated as meeting mortgage loan eligibility requirements of the Code if (i) the issuer attempted in good faith to meet all of the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the 2022 Series C Bonds are used to make mortgage loans used to finance residences which met all such requirements at the time the mortgage loans were executed. In determining whether 95% or more of the proceeds have been so used, the Board may rely on an affidavit of the borrower and of the property seller and an examination of copies of the borrower's federal income tax returns for the three years preceding the date the mortgage is executed even though the relevant information in such affidavits and returns should ultimately prove to be untrue, unless the Board or the mortgage lender knows or has reason to believe that such information is false.

Finally, Section 148(f) of the Code requires the Board to pay to the United States certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have earned on such investments if the investments were invested at a yield equal to the yield on the 2022 Series C Bonds. The Board has covenanted in the Indenture to comply with these requirements and has established procedures to determine the amount of excess earnings which must be paid to the United States.

Compliance Efforts. The Board has included provisions in the Guide and has established procedures, including receipt of certain affidavits and warranties from Mortgage Lenders and borrowers in order to assure compliance with the mortgage loan eligibility requirements and other requirements which must be met subsequent to the date of issuance of the 2022 Series C Bonds. The Board has covenanted in the Indenture to do and perform all acts and things permitted by law and necessary or desirable to comply with the Code and, for such purpose, to adopt and maintain appropriate procedures. The Board believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the 2022 Series C Bonds will be applied in accordance with the requirements of the Code so as to assure that interest on the 2022 Series C Bonds will be exempt from federal income taxes. In addition, the documentation for all Mortgage Loans will be reviewed by the staff of the Board. The Board believes, and Bond Counsel is of the opinion that, these documentation requirements and procedures are sufficient for purposes of complying with the requirements of the Code imposed on the 2022 Series C Bonds.

The Board has included provisions in the Indenture to redeem 2022 Series C Bonds in the event proceeds are not used to finance Loans in the manner set forth therein.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the 2022 Series C Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. This reporting requirement does not in and of itself affect or alter the excludability of interest on the 2022 Series C Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Collateral Tax Matters. Although Bond Counsel will render an opinion that interest on the 2022 Series C Bonds will not be included in gross income for federal income tax purposes, the accrual or receipt of interest on the 2022 Series C Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the 2022 Series C Bonds, particularly purchasers that are corporations

(including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim earned income credit or taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the 2022 Series C Bonds.

The extent of the tax consequences of purchasing or holding the 2022 Series C Bonds will depend upon the bondholder's tax status or other items of income or deduction. Purchasers of the 2022 Series C Bonds should consult with their tax advisors as to the consequences of purchasing or holding the 2022 Series C Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2022 Series C Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2022 Series C Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2022 Series C Bonds or the market value thereof would be impacted thereby. Purchasers of the 2022 Series C Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2022 Series C Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

NO LITIGATION

At the time of delivery of and payment for the 2022 Series C Bonds, the Board will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the best knowledge of the Board, threatened against the Board affecting the existence of the Board or the title of its members or officers to their respective offices or their respective powers with respect to the Bonds or the Guide, or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the collection of revenues or assets of the Board pledged or to be pledged to pay the principal of and interest on the Bonds, the Indenture or the Guide or contesting in any way the completeness or accuracy of the Official Statement or any amendment or supplement thereto, or contesting the material powers of the Board or any authority for the issuance of any of the Bonds, the execution of the Indenture or the Guide; nor, to the best knowledge of the Board, is there any basis thereof, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds, the Indenture or the Guide.

In the opinion of the Board's general counsel, there is no litigation pending which would materially adversely affect the financial position of the Board or the Board's ability to meet the debt service requirements of the Bonds.

CERTAIN LEGAL MATTERS

All legal matters relating to the authorization, issuance and delivery of the 2022 Series C Bonds are subject to the approval of Kutak Rock LLP, Bond Counsel. Upon the issuance of the 2022 Series C Bonds, Bond Counsel will deliver an opinion in substantially the form attached as Appendix B. Certain

legal matters will be passed upon for the Board by its General Counsel, Jackson, Murdo & Grant, P.C., Helena, Montana and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California. Payment of the fees of Kutak Rock LLP and Orrick, Herrington & Sutcliffe LLP is contingent upon the issuance of the 2022 Series C Bonds.

UNDERWRITING

The 2022 Series C Bonds are being offered by the Underwriters (for whom RBC Capital Markets, LLC is acting as representative) at the initial offering prices set forth on the inside cover page hereof. The Underwriters will be paid a fee of \$ _____ with respect to the offering and sale of the 2022 Series C Bonds. The Underwriters were engaged pursuant to a purchase contract with the Board pursuant to which the Underwriters will be obligated to purchase all of the 2022 Series C Bonds if any such bonds are purchased by the Underwriters and if certain other conditions are fulfilled.

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2022 Series C Bonds to certain dealers (including dealers depositing such Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The following paragraph has been provided by BofA Securities, Inc.: BofA Securities, Inc., an Underwriter of the 2022 Series C Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the 2022 Series C Bonds.

The Underwriters (and their affiliates) are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Board, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and/or the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities may involve securities and instruments of the Board. The Underwriters may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities, or instruments and may at any time hold or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

RATINGS

Moody’s and S&P have assigned the 2022 Series C Bonds the respective credit ratings of “Aa1” and “AA+”. The ratings assigned by Moody’s and S&P express only the views of such rating agencies. The explanation of the significance of ratings may be obtained from Moody’s and S&P, respectively. There is no assurance that such credit ratings will continue for any given period of time or that such credit ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. The Underwriters have undertaken no responsibility either to bring to the attention of owners or beneficial owners of any of the 2022 Series C Bonds any proposed revision or withdrawal of any ratings on any of the 2022 Series C Bonds or to oppose

any such proposed revision or withdrawal. Any such downward revision or withdrawal of such credit ratings may have an adverse effect on the market price of the 2022 Series C Bonds.

MUNICIPAL ADVISOR

CSG Advisors Incorporated (the “Municipal Advisor”) is serving as municipal advisor to the Board with respect to its role as issuer of the 2022 Series C Bonds. The Municipal Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the 2022 Series C Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

FINANCIAL STATEMENTS OF THE BOARD

The audited financial statements of the Board for the fiscal year ended June 30, 2021 are included in Appendix C.

ADDITIONAL INFORMATION

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Board and the purchasers or holders of any of the 2022 Series C Bonds.

The execution and delivery of this Official Statement by its Chair has been duly authorized by the Board. Concurrently with the delivery of the 2022 Series C Bonds, the Board will furnish a certificate executed on behalf of the Board by its Chair or Vice Chair to the effect that this Official Statement, as of the date of this Official Statement and as of the date of delivery of the 2022 Series C Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

MONTANA BOARD OF HOUSING

By: _____
Chair

APPENDIX A

INSURANCE, GUARANTEES AND FORECLOSURE

The following information relating to FHA, VA, USDA-RD and HUD insurance and guaranty programs describes, in general, the current terms of such program. Under each such program, Mortgage Loans that have been granted a forbearance pursuant to the CARES Act are not considered to be delinquent or in default. Mortgage Loans insured by FHA or guaranteed by VA, USDA-RD or HUD were insured or guaranteed pursuant to the requirements of the applicable programs at the time such Mortgage Loans were originated. Further, such programs are subject to change and the requirements applicable to Additional Mortgage Loans may be different.

Federal Authorization and Funding

The continued availability of certain governmental mortgage insurance and guarantee programs depends on periodic action by the United States Congress and the President, which action may be influenced by federal fiscal and budgetary considerations and controversies. In addition, other funding made available to, or administered by, the Board may be curtailed or provided in a different manner. It is not possible to predict what effect, if any, future governmental action may have on the ability of the Board to purchase insured or guaranteed mortgage loans or on its other operations.

Federal Housing Administration Single Family Mortgage Insurance

The FHA insurance program and policies described below are the current FHA insurance program and policies.

The National Housing Act of 1934, as amended, provides for various FHA mortgage insurance programs which differ in some respects, depending upon the nature of the mortgaged dwelling and the identity of the individual mortgagor. Mortgage Loans to be purchased with funds in the Program Fund may be insured under the Section 203(b) and 203(k) Programs of FHA. The Section 203(b) and 203(k) Programs provide FHA mortgage insurance for the acquisition and (in the case of the Section 203(k) Program) rehabilitation of one to four family housing.

Home buyers under the Section 203(b) and 203(k) Programs are required to pay an up-front mortgage insurance premium of 1.75%, fully financeable. Borrowers are also required to make a monthly payment the amount of which varies according to the loan to value ratio. For example, the amount of monthly mortgage insurance payment for a loan with a loan to value ratio of 95% or greater is .85% per annum. Under the Section 203(k) Program, when the mortgage loan involves insurance of advances, lenders are also entitled to charge homebuyers a supplemental origination fee of the greater of \$350 or 1.50% of the rehabilitation portion of the loan, not to exceed \$375. An annual risk based premium is assessed based on the amount of down payment. The principal amount of the mortgage loan may not be in excess of 96.5% of the appraised value of the property. The FHA maximum mortgage amounts in the State of Montana currently range from \$420,680 to \$603,750. FHA also permits a certain portion of the closing costs to be included in the mortgage loan. Under the Section 203(k) Program, the mortgage loan limits are generally applied based on the lesser of (i) the sum of the estimated cost of the rehabilitation plus the estimated as is value of the property before rehabilitation and (ii) 110% of the expected market value of the property after rehabilitation.

The regulations governing the FHA single-family programs under which the Mortgage Loans may be insured provide that a mortgage loan will be considered to be in default if the mortgagor fails to make any payment or perform any other obligation under the mortgage, and such failure continues for a

period of thirty days. Insurance benefits are payable to the mortgagee either upon foreclosure (or other acquisition of the property) and conveyance of mortgaged premises to HUD. In the event of a default on an FHA-insured single-family mortgage loan, the mortgagee must determine whether or not the default is caused by a circumstance or set of circumstances beyond the mortgagor's control which temporarily renders the mortgagor financially unable to cure the delinquency within a reasonable time or to make full mortgage payments. FHA insurance claims are paid in an amount equal to one hundred percent (100%) of the outstanding principal balance of the mortgage loan plus interest and certain additional costs and expenses. When entitlement to insurance benefits results from foreclosure (or other acquisition of the property) and conveyance, the insurance payment is computed as of the date of the default by the mortgagor. The insurance payment itself bears interest as provided under FHA regulations.

Payment for insurance claims may include reimbursement to the mortgagees for tax, insurance, and similar payments made by them, as well as deductions for amounts received or retained by them after default. Under most FHA insurance programs for single-family residences, HUD has the option of paying insurance claims in cash or in debentures. The HUD debenture rate may be less than the interest rate on the mortgage loans, and any such debentures would mature 20 years after the date of issue, pay interest semiannually and may be redeemable at par at the option of HUD. Current FHA policy, which is subject to change at any time, is to pay insurance claims in cash.

Department of Veterans Affairs Guaranty Program

The VA guaranty program and policies described below are the current VA program and policies.

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or in certain circumstances a veteran's spouse) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one-to-four unit family dwelling at interest rates permitted by the VA.

Congress periodically changes the funding fee rates to reflect changes in the cost of administering the program or to assist certain classes of veterans.

Claims for the payment of a VA guaranty may be submitted when any default of the mortgagor continues for a period of three months. A guaranty may be paid without the mortgagee instituting foreclosure proceedings or otherwise acquiring title. A mortgagee intending to institute foreclosure proceedings cannot do so until 30 days after notifying the Administrator of Veteran Affairs of this intention by registered mail. The guaranty provisions for mortgage loans are as follows: (i) for a mortgage loan of not more than \$45,000, 50% of the original principal amount of the mortgage loan; (ii) for a mortgage loan of greater than \$45,000 but not more than \$56,250, an amount of \$22,500; (iii) for a mortgage loan greater than \$56,250 but not more than \$144,000, the lesser of 40% of the original principal amount of the mortgage loan or \$36,000; and (iv) for a mortgage loan greater than \$144,000 (x) 25% of the loan amount for veterans with full VA home loan guaranty entitlement and (y) 25% of the Freddie Mac conforming loan limits for veterans who have previously used and not restored the guaranty entitlement. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but will in no event exceed the original amount of the guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgagee will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of any foreclosure sale of a mortgaged premise is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgagee of unsatisfied indebtedness on a mortgage upon the mortgagee's obtaining title and conveying it to the VA.

The Board requires that the guaranty not be reduced by prior entitlements.

United States Department of Agriculture, Rural Development Guaranteed Rural Housing Loan Program

Title V of the Housing Act of 1949 permits the United States Department of Agriculture, Rural Development (formerly the Farmers Home Administration) to provide mortgage guarantees for single family rural housing loans. A USDA-RD guarantee constitutes an obligation supported by the full faith and credit of the United States. The program requires the borrower to pay an upfront guarantee fee of 1% of the loan amount and a monthly fee of .35% per annum.

The maximum loss payment under a USDA-RD guarantee will be the lesser of:

- (1) Any loss of an amount equal to 90 percent of the principal amount actually advanced to the mortgagor; or
- (2) Any loss sustained by the lender of an amount up to 35 percent of the principal amount actually advanced to the mortgagor, plus any additional loss sustained by the lender of an amount up to 85 percent of the remaining 65 percent of the principal amount actually advanced to the mortgagor.

Loss includes only (1) principal and interest evidenced by the note; (2) any loan subsidy due and owing; and (3) any principal and interest indebtedness on USDA-RD approved protective advances for protection and preservation of collateral. Interest is covered by the guarantee to the date of the final loss settlement when the lender conducts liquidation of the collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained. If the lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by USDA-RD as follows: (i) the collateral will be appraised at its current market value as of the date of acquisition by the lender then (ii) deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the lender. USDA-RD will pay its claim based on an appraisal after foreclosure has occurred rather than upon the sale of the property.

United States Department of Housing and Urban Development Section 184 Guaranty Program

Under the provisions of Section 184 of the Housing and Community Development Act of 1992, as amended ("Section 184"), HUD has the authority to guarantee loans for the construction, acquisition, rehabilitation or refinancing of 1- to 4-family homes to be owned by Native Americans (as defined in Section 184) on eligible land (as defined in Section 184). Loans guaranteed under Section 184 must bear a fixed rate of interest and be in a principal amount not in excess of 97.75% of the appraised value of the property, excluding closing costs (98.75% if the appraised value is \$50,000 or less), but in no event in excess of 150% of the FHA loan limit for the area. The HUD guarantee under Section 184 is 100% of unpaid principal and interest plus reasonable fees and expenses for loans processed through foreclosure by the holder of the guarantee certificate and 90% (100% in certain circumstances) of unpaid principal and interest for loans assigned to HUD without foreclosure.

Private Mortgage Guaranty Insurance

The Board has in the past allowed and may in the future allow Additional Mortgage Loans to be insured by PMI issued by providers of private mortgage guaranty insurance approved by the Board.

Under most policies issued by private mortgage insurers, the maximum amount insurable varies and is based on the lower of the appraised value or selling price for owner-occupied dwellings. Requirements of borrower equity vary according to the percentage of the mortgage to be insured. Certain insurers will credit toward the value of the land to be improved, trade-in property or work equity, a specified

percentage of this amount, if at least a minimum cash equity is met and the home is to be owner-occupied. Although there may be variations among insurers, available coverage by private mortgage insurers is generally limited to first mortgage loans or contracts on improved real estate, with amortization over the term of the loan or contract in substantially equal monthly payments, including accruals for taxes and insurance.

The Homeowners Protection Act of 1998 (the “HPA”) permits a mortgagor responsible for paying his PMI premium to cancel PMI on the date on which the principal balance of the mortgage loan is scheduled to reach 80% of the original value of the residence or on the date on which the principal balance actually reached 80% of the original value of the residence. The original value is the lesser of the sales price or the appraised value at the time the mortgage loan transaction was consummated. In order to effect such cancellation, the mortgagor must request in writing that the cancellation be initiated, must have a good payment history with respect to the mortgage loan (i.e., no mortgage payment was, during the year beginning two years prior to cancellation, 60 or more days delinquent, and no mortgage payment was, during the year beginning one year prior to cancellation, 30 or more days delinquent), and must satisfy any requirements of the lender for evidence that the value of the residence has not declined below its original value and for certification that the mortgagor’s equity in the residence is not encumbered by a subordinate loan. The HPA further provides for automatic termination of PMI on the date on which the principal balance of the mortgage loan is scheduled to reach 78% of the original value of the residence, or if the borrower is not then current on his mortgage loan payments, on the date on which the mortgagor subsequently becomes current on such payments. These termination and cancellation provisions do not apply to mortgage loans characterized as “high risk loans” as determined in accordance with guidelines to be published by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Even if the private mortgage insurance is not canceled or terminated as described above, the HPA requires that PMI must be terminated on the first day of the month immediately following the date that is the midpoint of the amortization period of the mortgage loan if the mortgagor is then current on his mortgage loan payments. The HPA also requires that mortgagors be provided with certain disclosures and notices regarding termination and cancellation of private mortgage insurance. The Board cannot presently predict what the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association Guidelines with respect to designation of “high risk loans” will be or the effect, if any, of the HPA on future losses incurred on Mortgage Loans insured by PMI.

Under the various policies, delinquencies must be reported to the insurer within a specified period of time after default, and proceedings to recover title are required to be commenced within a specified period of time after default. It is standard practice for private mortgage insurers to require that lending institutions, prior to presenting a claim under the mortgage insurance, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor. When such claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property.

The amount of loss payable generally includes the principal balance due under the mortgage loan, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings, although in no event will the insurer be required to pay an amount which exceeds the coverage under a policy.

Prior to insuring loans for any mortgage lender, the insurer investigated and evaluated such mortgage lender in the areas of (a) quality of appraisal ability, (b) quality of underwriting ability, (c) net worth and quality of assets and (d) ability and past performance of servicing staff and adequacy of servicing procedures.

All PMI Providers provided minimum coverages, with the percentage of the mortgage insurance varying with the LTV from 25% insurance coverage for a LTV of 95% to 12% insurance coverage for a LTV of 80% or less. Once the LTV is below 80%, coverage ceases. Mortgage Loans were underwritten through either Desktop Underwriting or Loan Prospector, but only “approve eligible” loans allowed; no expanded approvals were allowed. In addition, PMI must also provide additional insurance for at least five years after closing that covered the borrower’s mortgage payments in the event of involuntary unemployment, accidental disability, death or dismemberment, at no extra cost. This added coverage was limited to a maximum of \$2,000 per month for principal, interest, taxes and insurance, for a maximum of six months and a maximum of \$12,000 total benefits.

Montana Foreclosure Procedures

The security instruments employed under the FHA, VA, USDA-RD and HUD programs in Montana generally take the form of trust indentures (deeds of trust). The Montana Code permits the trustee under a trust indenture to conduct a non-judicial foreclosure sale. The trustee institutes this process by filing for record a notice of trustee’s sale. This notice of sale must be recorded at least 120 days prior to the scheduled sale. Copies of this notice are mailed by certified or registered mail to the grantor (mortgagor), trustee, beneficiary, their successors, all other parties with interests of record and to any persons who have requested such notice under applicable statutory procedures.

The notice of sale must be published at least three times, once a week for three consecutive weeks, the last publication to be at least twenty days prior to the sale. The notice of sale must be posted on the property at least twenty days before the date of sale.

The grantor may reinstate the trust indenture at any time prior to trustee’s sale by paying all delinquent installments plus costs, expenses, trustees’ fees and attorneys’ fees. No redemption is permitted after sale.

Trust indentures may also be foreclosed in judicial proceedings in the manner provided by Montana law for the foreclosure of mortgages. In a judicial proceeding, the grantor (mortgagor) has one year after the foreclosure sale to redeem and is entitled to possession during the redemption period. In addition to the grantor, rights of redemption are also accorded to his successor, junior lienors or judgment creditors by paying the foreclosure sale purchaser the purchase price plus interest and other costs. A sheriff’s certificate is issued at the time of sale to the purchaser, but a deed is not issued until the expiration of the one year redemption period.

Montana law does not allow a deficiency judgment in the case of a trustee’s sale under a trust indenture or a judicial foreclosure on a family residence.

The grantor may deliver a deed in lieu of foreclosure rather than having the trust indenture foreclosed, provided that the Board and FHA, VA, USDA-RD, HUD or the Approved PMI Provider, as applicable, give prior consent.

Servicemembers’ Civil Relief Act

The Servicemembers’ Civil Relief Act of 2003 applies to anyone called to active military duty and who has debts (including mortgage debt) incurred before they were so activated. The Act effectively provides that, upon activation and during the period of active duty, (1) such debts may not be foreclosed on and (2) any interest on such debts in excess of 6% must be forgiven.

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APPENDIX B

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the issuance of the 2022 Series C Bonds, Kutak Rock LLP, Bond Counsel, proposes to issue an approving opinion in substantially the following form:

Montana Board of Housing
301 South Park Avenue
Helena, MT 59620

§ _____
Montana Board of Housing
Single Family Mortgage Bonds,
2022 Series C (Non-AMT)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of Single Family Mortgage Bonds, 2022 Series C (Non-AMT) (the “2022 Series C Bonds”), of the Montana Board of Housing (the “Board”), in the aggregate principal amount of \$ _____. The 2022 Series C Bonds are authorized to be issued pursuant to the Housing Act of 1975, as amended, constituting Sections 90-6-101 through 90-6-127, Montana Code Annotated, as amended (the “Act”), a duly adopted resolution of the Board, a Trust Indenture dated March 10, 1977 (Amended and Restated as of May 1, 1997) between the Board and Wilmington Trust, National Association (the “Trustee”), as amended, and the 2022 Series C Supplemental Trust Indenture dated as of December 1, 2022 (collectively, the “Indenture”). The capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed in the Indenture.

The 2022 Series C Bonds are being issued to provide funds to purchase mortgage loans (the “Mortgage Loans”) for the financing of eligible single family residential real property in the State of Montana (the “State”) and to make deposits in certain funds and accounts under the Indenture. The 2022 Series C Bonds, as well as any bonds previously issued and outstanding under the Indenture and any bonds to be issued thereunder (collectively, the “Bonds”), are equally and ratably secured by the Indenture. The Indenture contains no limitation on the amount of Bonds that may be issued thereunder.

The 2022 Series C Bonds are dated, mature in the years, in the respective principal amounts and bear interest, if any, at the rates per annum, are subject to redemption and are otherwise in the form as described in the Indenture.

In this connection, we have examined the Constitution of the State and various laws, rules and documents considered necessary, including the minutes of meetings of the Board relating to the issuance of the 2022 Series C Bonds, executed copies of the Indenture and the opinion of Jackson, Murdo & Grant, P.C., general counsel to the Board.

The Board has covenanted in the Indenture to do all things necessary to assure that interest on the 2022 Series C Bonds will be excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations promulgated thereunder. Under Section 148 of the Code, certain requirements must be met subsequent to the delivery of the 2022 Series C Bonds in order that interest on the 2022 Series C Bonds be so excluded. Certain covenants of the Board and other parties, as well as affidavits and other procedures, are set forth in the documents relating to the issuance of the 2022 Series C Bonds and the Board’s single family mortgage purchase program to

comply with the requirements of the Code. We have examined such documents and such covenants, affidavits and other procedures and are of the opinion that they are sufficient to enable the Board to comply with the requirements of the Code.

Based on the foregoing, it is our opinion that:

(1) The Board was duly created and is validly existing under the provisions of the Act with full power and authority to execute and deliver the Indenture, to issue the 2022 Series C Bonds and to perform its obligations under the Indenture.

(2) The Board has full power and authority to execute and deliver the Indenture. The Indenture has been duly and lawfully executed and delivered by the Board, is in full force and effect and is valid and binding upon the Board and enforceable in accordance with its terms, except to the extent that the enforceability of the Indenture may be limited by any applicable bankruptcy, insolvency or other law or enactment now or hereafter enacted by the State or federal government affecting the enforcement of creditors' rights. No other authorizations for the Indenture are required.

(3) The Indenture creates the valid pledge which it purports to create of (i) all right, title and interest of the Board in and to all Mortgage Loans and Mortgage-Backed Securities acquired with moneys subject to the lien of the Indenture, (ii) the Revenues, (iii) all moneys and investments in all funds and accounts established by or pursuant to the Indenture, and (iv) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture.

(4) The 2022 Series C Bonds have been duly and validly authorized and issued in accordance with law, including the Constitution and statutes of the State and the Act, and in accordance with the Indenture. The 2022 Series C Bonds, together with the interest payable with respect thereto, are legal, valid and binding general obligations of the Board payable out of any of the moneys, assets or revenues of the Board, subject only to any agreements made with the holders of particular notes or bonds pledging particular moneys, assets or revenues for the payment thereof, all as provided in the Indenture, and the 2022 Series C Bonds are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that the enforceability of the 2022 Series C Bonds may be limited by any applicable bankruptcy, insolvency or other law or enactment now or hereafter enacted by the State or federal government affecting the enforcement of creditors' rights. The 2022 Series C Bonds are entitled to the benefits of the Indenture and the Act.

(5) The 2022 Series C Bonds shall not constitute a debt or liability or a pledge of the faith and credit of the State.

(6) Under the existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2022 Series C Bonds is excluded from gross income for federal income tax purposes. Interest on the 2022 Series C Bonds is not a preference item for purposes of the federal alternative minimum tax imposed on individuals. For tax years beginning after December 31, 2022, interest on the 2022 Series C Bonds may affect the federal alternative minimum tax imposed on certain corporations.

(7) Under the Act, interest on the 2022 Series C Bonds is free from taxation by the State or any political subdivision or any other instrumentality of the State, except for inheritance, estate, gift and corporate license taxes.

The accrual or receipt of interest on the 2022 Series C Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding such consequences.

We have examined an executed 2022 Series C Bond, and, in our opinion, the form of said Bond and its execution are regular and proper.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based upon existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation.

Very truly yours,

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2021, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2021, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Other Post-Employment Benefits–Total Board OPEB Liability and Related Ratios, Pension Benefits–Schedule of Proportionate Share of the Net Pension Liability, and Pension Benefits–Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position; Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and Combining Statement of Cash Flows is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

All sections listed in the foregoing table of contents, except for Appendix C, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedure applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2021, on our consideration of the Montana Board of Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (21-07A).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 2, 2021

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

The following information presents management's discussion and analysis of the Montana Board of Housing (Board) program and financial activity during the fiscal year ending June 30, 2021 (FY21). Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 551 Single-Family Mortgages were purchased with the Bond Program for \$68.5 million.
- 88 Mortgage Credit Certificates were issued on a total loan amount of \$21.9 million.
- A ten year \$32.4 million allocation of Low Income Housing Tax Credits, at \$3.24 million per year, was awarded during FY21, providing equity to produce or preserve affordable rental housing.
- 4 Reverse Annuity Mortgage (RAM) loans were originated in the amount of \$494,412 thousand. RAM is currently assisting 52 elderly households.
- The Board issued \$ 73.4 million of Single Family Mortgage Bonds.
- Bond debt retired was \$100.6 million from prepayments and regular debt service and an additional \$13.4 million was refunded with new bond funds.
- Gross bond debt payable decreased from \$531.3 million to \$494.0 million.
- Net position, including a prior period adjustment described in note 18, increased approximately \$194 thousand during FY21.

Fiscal Year 2021 Update

Single Family Program

The Board experienced a decrease in its portfolio in FY21, both in number of loans and unpaid principal balance, because of a few variables. In the first half of the FY21, market rates were set lower than what the Board was able to offer through its bond issues. Market rates ranged from 2.4% to 2.9% and Board rates ranged from 2.75% to 3.5%. In the second half of the FY21, the Board saw an improvement in bond pricing which was reflected in the rates the Board was able to offer, which were consistently lower than market rates.

The new challenge the Board faced was a lack of affordable inventory for first time homebuyers to purchase. With the ability to work remotely, Montana experienced an influx of people moving from out of state to buy homes, and reducing the affordable inventory of homes. The reduction of the housing supply also drove purchase prices up around the State. In some counties, sales prices increased beyond what first time homebuyers could afford. In other counties, sale prices increased beyond the IRS purchase price limits set for our loan programs. We also saw an increased number of loan payoffs in our portfolio as borrowers took advantage of high property values, either refinancing or selling their homes. The Board continues to explore opportunities to expand its programs and offer low interest loans and down payment assistance to first time homebuyers.

The Board currently offers two down payment assistance programs. The 0% Deferred Program is funded from agency reserves. There is a maximum loan amount of \$6,500 and income limit of \$55,000 for households of 1 or 2 people, and \$65,000 for family size of 3 or more. The amortizing Bond Advantage DPA Program offers a 15 year amortizing loan with the same interest rate as the first loan, with a maximum loan amount of \$10,000. The amortizing DPA is now being funded through bond proceeds.

Loan Servicing Program

The Board was servicing 87% of its own Single Family loans and all of its Multifamily loans at the end of FY21. As of June 30, 2021, the portfolio size decreased by 267 loans.

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

As of June 30, 2021, the Board was servicing 211 COVID-19 formal loan forbearances belonging to the Board of Housing. Forbearance is a temporary postponement of mortgage payments. Forbearance is mandated by the Federal Housing Administration (FHA), Department of Veterans Affairs (VA) and USDA Rural Development (RD).

Multifamily Program

The Board offers a variety of financing options for the development of affordable multifamily rental units including Federal Low Income Housing Tax Credits and permanent loan products. During FY2021, the Board allocated \$32.4 million in housing credits to be used over ten years to produce 162 rental units in Montana.

The Board has seen an increase in the number of Low Income Housing Tax Credit properties funded with 4% tax credits and conduit bonds. In FY21, we issued \$204 million in conduit bonds to produce 1,208 additional rental units.

Finance

The global outbreak of COVID-19 and measures taken by federal, state and local governments in response, are altering the behaviors of individuals and businesses in a manner that may have negative effects on economic activity across the country and in the State. See Note 17, Operation Disruption Risk - COVID-19.

One factor that did affect the Board were low interest rates on investments. The lower interest rates reduced the number of appropriate securities available for the Board to purchase for the investment portfolio. The lower interest rates also reduced fair values of current investments and produced lower investment income.

Changes in actuarial assumptions used to calculate pension and OPEB liabilities and allocated expenses caused increases in the pension and OPEB liabilities and expenses that further reduced Board income.

Low loan rates available to borrowers caused a decrease in the mortgage loans receivable as borrowers refinanced home loans. Increase in home sale prices contributed to some slow down in loan purchasing and reduced the loan portfolio. This decrease also caused a decrease in interest income from mortgage loans.

Overview of the Financial Statements

The Board is a self-supporting entity using no Montana State government general fund appropriations to operate. The Board is classified as an enterprise fund, that is, a fund which is financed and operated in a manner similar to a private business enterprise.

Net Position – Restricted for Bondholders represents bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other activities.

This discussion and analysis, the financial statements, notes and supplemental information are designed to provide the stakeholders of the Board, citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the Board operations and to demonstrate accountability for the resources with which the Board is entrusted.

**MONTANA BOARD OF HOUSING
CONDENSED FINANCIAL INFORMATION
CHANGE IN NET POSITION AND OPERATING INCOME
YEARS ENDED JUNE 30, 2021 AND 2020**

| | 2021 | 2020 |
|--|----------------|----------------|
| Assets: | | |
| Current Assets | \$ 156,494,347 | \$ 142,713,511 |
| Non-current Assets | 511,010,383 | 563,594,981 |
| Total Assets | 667,504,730 | 706,308,492 |
| Deferred Outflows of Resources: | 1,073,265 | 554,552 |
| Liabilities: | | |
| Current Liabilities | 27,697,936 | 31,296,245 |
| Non-current Liabilities | 480,568,519 | 515,291,153 |
| Total Liabilities | 508,266,455 | 546,587,398 |
| Deferred Inflows of Resources: | 204,270 | 362,198 |
| Net Position: | | |
| Invested in Capital Assets | 2,589 | 2,891 |
| Restricted | 160,104,681 | 159,910,557 |
| Total Net Position | 160,107,270 | 159,913,448 |
| Operating Revenue: | | |
| Interest on Loans | 18,949,898 | 20,626,159 |
| Earnings from Investments | (169,366) | 4,484,946 |
| Fees and Charges | 2,581,752 | 1,712,635 |
| Other Income | 29,539 | 29,466 |
| Total Operating Revenue | 21,391,823 | 26,853,206 |
| Operating Expenses: | | |
| Bond Expenses | 16,321,671 | 18,175,175 |
| Servicing Fees | 628,706 | 1,333,792 |
| General and Administrative | 4,869,149 | 4,946,509 |
| Total Expenses | 21,819,526 | 24,455,476 |
| Operating Income (Loss) | (427,703) | 2,397,730 |
| Non-operating revenue | | |
| Pensions - Non-employer Contributions | 126,640 | 39,805 |
| Total Non-operating Income | 126,640 | 39,805 |
| Income (Loss) before transfers | (301,063) | 2,437,535 |
| Transfer From Other Agency | 501,433 | — |
| Increase (Decrease) in Net Position | 200,370 | 2,437,535 |
| Net Position, Beginning of Year | 159,913,448 | 157,475,913 |
| Adjustments to Beginning Net Position | (6,548) | — |
| Net Position, End of Year | \$ 160,107,270 | \$ 159,913,448 |

¹ The \$38.8 million reduction in assets was caused by a \$45.4 million reduction in Mortgage Loans Receivable that occurred due to the availability of lower market rates on home loans. These rates caused refinancing of Board loans and a reduction in the purchases of new Board loans.

² The majority of the \$38.3 million drop in liabilities was due to a reduction in the Board's bonds payable. This was also due to the drop in rates which allowed to Board to refund a higher interest rate bond at lower rates. Prepayments and payoffs were also used to call bonds, lowering the bonds payable amounts.

³ The \$1.7 million decrease in interest income was also due to the reduction in the Mortgage Loans Receivable and the lower interest rates on new loans purchased.

⁴ The investment market during FY21 fluctuated markedly and at fiscal year-end caused a drop in the value of the board investments of \$1.7mm. The Board also had several longer term higher yield investments that matured during FY21 and there were to replacement option, decreasing investment income.

⁵ \$801.5 thousand of the \$869.1 thousand increase in fee income was from fees associated with conduit debt fees.

⁶ Overall revenue was also affected by a \$1.7 million drop in the fair value of Board investments during FY21. Maturity of some long-term investments with no suitable replacement options also negatively affected the earnings from investments.

⁷ As the Board continues to service more of their own loans service fees will continue to drop because we will not be paying outside servicers.

⁸ \$501,433 was transferred from the Real Estate Recovery account to the Housing Montana Fund. For more information on this transfer, see Note 20.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

ASSETS

| | |
|--------------------------------|---------------------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 115,927,871 |
| Investments | 16,708,362 |
| Mortgage Loans Receivable, Net | 18,306,538 |
| Corporate Advance | 925,973 |
| Interest Receivable | 4,460,386 |
| Prepaid Expense | 165,217 |
| Total Current Assets | <u>156,494,347</u> |
| Non-current Assets | |
| Investments | 30,006,334 |
| Mortgage Loans Receivable, Net | 479,318,199 |
| Mortgage Backed Securities | 437,032 |
| Acquisition Costs | 1,237,840 |
| Capital Assets, net | 10,978 |
| Total Non-current Assets | <u>511,010,383</u> |
| TOTAL ASSETS | <u>667,504,730</u> |

DEFERRED OUTFLOW OF RESOURCES

| | |
|--------------------------------|-------------------------|
| Deferred Refunding Costs | 151,231 |
| Deferred OPEB Outflows | 320,587 |
| Deferred Pension Outflow | 601,447 |
| TOTAL DEFERRED OUTFLOWS | <u>1,073,265</u> |

LIABILITIES

| | |
|--|---------------------------|
| Current Liabilities | |
| Accounts Payable | 2,454,851 |
| Funds Held For Others | 6,416,112 |
| Accrued Interest - Bonds Payable | 1,366,765 |
| Bonds Payable, Net | 16,820,000 |
| Arbitrage Rebate Payable to U.S. Treasury Department | 521,085 |
| Accrued Compensated Absences | 112,848 |
| Leases Payable within 1 year | 6,275 |
| Total Current Liabilities | <u>27,697,936</u> |
| Non-current Liabilities | |
| Bonds Payable, Net | 477,142,624 |
| Arbitrage Rebate Payable to U.S. Treasury Department | 239,529 |
| Accrued Compensated Absences | 249,739 |
| Net Pension Liability | 2,554,290 |
| Other Postemployment Benefits | 380,223 |
| Lease Payable | 2,114 |
| Total Non-current Liabilities | <u>480,568,519</u> |
| TOTAL LIABILITIES | <u>508,266,455</u> |

DEFERRED INFLOW OF RESOURCES

| | |
|-------------------------------|-----------------------|
| Deferred OPEB Inflow | 20,860 |
| Deferred Pension Inflow | 183,410 |
| TOTAL DEFERRED INFLOWS | <u>204,270</u> |

NET POSITION

| | |
|--|------------------------------|
| Net Investment in Capital Assets | 2,589 |
| Restricted for Bondholders: | |
| Unrealized (losses) gains on investments | 5,356,008 |
| Single Family Programs | 126,889,033 |
| Various Recycled Mortgage Setaside Programs | 3,112,062 |
| Multifamily Programs | 12,786,860 |
| Multifamily Project Commitments | 125,767 |
| Reverse Annuity Program | 8,322,749 |
| Restricted for Affordable Revolving Loan Program | 3,512,202 |
| TOTAL NET POSITION | <u>\$ 160,107,270</u> |

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

| | |
|--|----------------------|
| OPERATING REVENUES | |
| Interest Income - Mortgage Loans | \$ 18,949,898 |
| Interest Income - Investments | 1,538,661 |
| Fee Income | 2,581,752 |
| Net Increase (Decrease) in Fair Value of Investments | (1,708,027) |
| Other Income | <u>29,539</u> |
| Total Operating Revenues | <u>21,391,823</u> |
| OPERATING EXPENSES | |
| Interest on Bonds | 15,107,710 |
| Servicer Fees | 628,706 |
| Contracted Services | 828,852 |
| Amortization of Refunding Costs | 51,380 |
| Bond Issuance Costs | 928,992 |
| General and Administrative | 3,853,093 |
| Arbitrage Rebate Expense | 233,589 |
| TANF Spec Project Expense | (238,682) |
| Pension Expense | 402,729 |
| Other Post-Employment Benefits | <u>23,157</u> |
| Total Operating Expenses | <u>21,819,526</u> |
| Operating Income (Loss) | <u>(427,703)</u> |
| Nonoperating Revenues (Expenses) | |
| Pensions - nonemployer contribution | <u>126,640</u> |
| Nonoperating Income (Loss) | <u>126,640</u> |
| Income (Loss) before transfers | (301,063) |
| Transfer from Other Agency | 501,433 |
| Increase (Decrease) in Net Position | <u>200,370</u> |
| Net Position, July 1 - as previously reported | 159,913,448 |
| Adjustments to Beginning Net Position (Note 18) | <u>(6,548)</u> |
| Net Position, July 1 as restated | <u>159,906,900</u> |
| Net Position, End of Year | <u>\$160,107,270</u> |

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

| | |
|--|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITY: | |
| Receipts for Sales and Services | \$ 4,794,216 |
| Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans | 132,269,613 |
| Collection (Disbursement) on Loan Escrow Accounts | (840,001) |
| Cash Payments for Loans | (68,444,318) |
| HUD Rental Adjustment Expense | 238,682 |
| Payments to Suppliers for Goods and Services | (4,412,198) |
| Payments to Employees | (2,703,045) |
| Corporate (Advances) Repayments | (711,774) |
| Other Operating Revenues | <u>29,539</u> |
| Net Cash Provided (Used) by Operating Activities | <u>60,220,714</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | |
| Payment of Principal and Interest on Bonds and Notes | (128,558,829) |
| Proceeds from Issuance of Bonds and Notes | 73,410,000 |
| Payment of Bond Issuance Costs | (928,995) |
| Premium Received on Bonds | 2,504,125 |
| Transfer From Other State Agency | 501,433 |
| Purchase of Mortgage Servicing Rights | <u>(488,404)</u> |
| Net Cash Provided (Used) by Non-capital Financing Activities | <u>(53,560,670)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of Investments | (12,257,000) |
| Proceeds from Sales or Maturities of Investments | 4,993,906 |
| Change in Interest on Investments | (193,294) |
| Arbitrage Rebate Tax | <u>(593,665)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(8,050,053)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,390,009) |
| Cash and Cash Equivalents, July 1 | 117,317,880 |
| Cash and Cash Equivalents, June 30 | <u><u>\$ 115,927,871</u></u> |

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

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

| | |
|---|----------------------|
| Operating Income | \$ (427,703) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | |
| Depreciation | 6,482 |
| Amortization | (1,121,964) |
| Interest Expense | 17,311,755 |
| Interest on Investments | (1,637,574) |
| Arbitrage Rebate Tax | 233,589 |
| Change in Assets and Liabilities: | |
| Decr (Incr) in Mortgage Loans Receivable | 46,263,421 |
| Decr (Incr) in Other Assets | (1,664,216) |
| Decr (Incr) in Fair Value of Investments | 1,695,562 |
| Incr (Decr) Accounts Payable | (641,566) |
| Incr (Decr) Funds Held for Others | (790,230) |
| Incr (Decr) Pensions Payable | 682,449 |
| Incr (Decr) in Compensated Absences Payable | 803 |
| Incr (Decr) Other Postemployment Benefits | 316,086 |
| Incr (Decr) Leases Payable | (6,180) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 60,220,714</u> |

Noncash Investing, capital, and financing activities: During FY21, Board investments decreased in fair value by \$1,708,027. The fair value decrease was not realized in cash during FY21.

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

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975 by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total dollar amount of notes and bonds outstanding at any time may not exceed \$1,500,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation

The financial statements of the Board are presented on a combined basis. Summary comparative financial information is contained in the Management Discussion and Analysis section. The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and revenues and expenses for the period.

Reporting Entity

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board as a reporting entity. The financial statements of the Board are presented as a component unit in the State of Montana's Annual Comprehensive Financial Statement. The enterprise fund of the Board is part of, but does not comprise the entire proprietary fund type, of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, deferred inflows of resources, liabilities, deferred outflows of resources, net position, revenues, and expenses.

The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2021

As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture. Restricted Net Position also includes funds reserved by participants and funds committed to specific projects under various programs established by the Board and restricted by enabling legislation.

Net Position

Restricted Net Position - Net position is considered restricted if it is limited as to the manner in or purpose for which funds may be used. The Statement of Net Position reports \$2,589 of net investment in capital assets and \$160,104,681 of restricted net position.

The following describes the restrictions on the Net Position: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Due to the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes.

Revenue and Expense Recognition

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services relating to a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, if they occur, are reported as non-operating revenues or expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure

The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds

These funds, established under three separate trust indentures adopted on various dates, are established to account for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single-family mortgage loans. The mortgage loans are generally insured by the Federal Housing Administration (FHA), guaranteed by Veterans Administration (VA), Rural Development (RD), or private mortgage insurance.

The assets of each individual Single Family Mortgage Program Fund are restricted by the fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in Single Family I, II and XI Indentures.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2021

Multifamily Mortgage Program Funds

These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

On November 10, 1998, the Board issued \$1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds.

The mortgage loans originated under this Indenture do not require Federal Housing Administration insurance. The Multifamily Program Fund on the combining financial statements includes activity for both Indentures.

Housing Trust Fund

The Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs including the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Housing Trust Fund accounts are held in the State Treasury.

Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners, the Cash Assistance Program (CAP) and the Disabled Assistance program (DAAHP) to assist individuals and families in the purchase of a single-family home. The Housing Trust Fund includes all revenues and expenses for the Low Income Housing Tax Credit Program.

Housing Montana

Under MCA 90-6-133, a Revolving Loan Account was established. The account was established in the State special revenue fund in the State Treasury. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund, effective July 1, 2003. During the 2007 legislative session, the account was renamed "Housing Montana." The money in the loan account is allocated to the Board for the purposes of providing loans to eligible applicants. Currently, the account holds resources and loans provided by the Federal Housing and Urban Development Section 8 administrative fee reserve account, the Temporary Assistance to Needy Families (TANF) block grant to the State and the Affordable Housing Program.

On April 13, 2020, the office of the prior Governor, Steve Bullock, issued an Executive order that allowed the Board to administer TANF Housing Assistance funds as grants, not just as loans. "To provide for the program, to allow for the expenditure of available TANF funds, and to allow for grant payments, strict compliance with §§ 90-6-133(1)(b) and 90-6-134(1) MCA, and ARM 8.111.508(4) is suspended for the duration of the emergency, but only for the limited purposes of administering the program described in this Directive."

Montana Housing granted over \$430,000 to over 100 eligible families under this Program. Since using this fund source as grants for emergency housing assistance was not originally a budgeted use, we were able to receive reimbursement from the Department of Commerce, who facilitated the CARES Act CRF funds. A portion of this reimburse was received during FY21.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2021

Cash and Cash Equivalents

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short-term investment pool. Cash and equivalents are described in Note 2 of these financial statements.

Investments

The Board follows the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in Note 3 of these financial statements.

The Board values its investments at fair value except for certain investments that have a remaining maturity at the time of purchase of one year or less which are measured at amortized cost. This presentation conforms to the provisions of GASB Statement No. 72 regarding fair values.

Mortgage Loans Receivable

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA), Rural Development (RD), Housing and Urban Development (HUD), private mortgage insurance or have a loan-to-value less than 80%. Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months. Estimated losses are determined based on management's judgment, giving effect to numerous factors including but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors or covered by the Board's operating funds.

The Board incurs mortgage loan service fees with loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

The Board has pledged future revenues collected from mortgage receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board; see Note 5 for details. The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

Mortgage-Backed Securities

Mortgage-backed securities reported in the Single-Family Programs are pass-through securities created by the Federal National Mortgage Association (FNMA) and purchased by the Board. FNMA purchases, pools and

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securitizes qualified Montana mortgage loans from the Board's Single-Family Programs. These securities are reported at fair value which may vary from the value of the securities if held to maturity.

Bonds Payable

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds. Bond issuance costs, including underwriter discounts, are expensed in the period incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These statements contain estimates for compensated absences liability, net pension liability, deferred pension inflows and outflows, deferred other post employment benefits (OPEB) inflows and outflows, OPEB benefits liability, arbitrage rebate liability, allowance for loan losses and fair value of investments.

Capital Assets

Capital assets are recorded at historical cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computer, software and capital leases. The capitalization threshold for recording capital assets varies between \$5,000 and \$500,000 depending on the type of asset purchased. Purchases under these thresholds are recorded as expenses in the current period.

Funds Held for Others

The Board started to service Board loans during fiscal year 2012. The servicing fund holds hazard insurance premiums and property taxes collected from mortgage loan borrowers' monthly payments until premiums and property taxes are due. Multifamily reserves are held to be used for repairs on the Multifamily properties as a requirement of the loan type. Expenditures from the Multifamily reserves have to be approved and documented by the Board.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Investments are reported at fair value. PERS adheres to all applicable GASB statements.

Compensated Absences

The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit

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on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments having maturities of less than 90 days. At June 30, 2021, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

| Program Funds: | |
|------------------------------------|------------------------------|
| Cash Deposited with State Treasury | \$ 6,317,455 |
| Custodial Cash | 6,613,695 |
| Cash on Hand ⁹ | 36,646 |
| Short-Term Investments | <u>102,960,075</u> |
| Total Cash and Cash Equivalents | <u><u>\$ 115,927,871</u></u> |

NOTE 3 INVESTMENTS

The Board invests the following funds: bond proceeds until the amounts are used to purchase mortgage loans, mortgage loan collections until debt service payment dates, and reserves and operating funds until needed. The Board follows GASB Statement No. 40 and GASB Statement No. 72 regarding fair values. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing in accordance with an investment policy which is annually reviewed and follows bond indenture, Internal Revenue Code, and State statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows State law by limiting investments to the following:

- Direct obligations or obligations guaranteed by the United States of America.
- Indebtedness issued or guaranteed by Government Sponsored Entities such as Federal Home Loan Bank System, Federal National Mortgage Association, Federal Farm Credit Bank and Federal Home Loan Mortgage Corporation.
- Certificates of Deposit insured by the Federal Deposit Insurance Corporation.
- Guaranteed Investment Agreements or Repurchase Agreements.

Credit Risk

Credit risk is the risk that the other party to an investment will not fulfill its obligations. Board investment policy mitigates this risk by requiring financial institutions to be rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services. The Board enters into guaranteed investment agreements and repurchase agreements as directed by bond indentures. The table included in this note identifies investment agreement participants and their ratings.

⁹ Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2021.

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Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Title 17, Chapter 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The table included in this note displays both investment provider and investment source diversity.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board’s investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider’s agent and confirmed by the Board’s trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board’s investment policy does not explicitly address interest rate risk. However, the policy indirectly speaks about interest rate risk by stating that investments are to be held to maturity and not for the intention of generating investment return. Typically, long-term investments are only sold as a result of refunding a bond issue or to meet liquidity needs. The following table displays Effective Duration for appropriate investment types or NA (not applicable) to indicate interest rate risk. All funds and component units of the State of Montana are required to use the duration method to report interest rate risk.

| | Fair Value June 30, 2021 | Moody's Rating | S&P Rating | Effective Duration |
|--|-----------------------------|-------------------|---------------|-----------------------|
| <u>Government Sponsored Enterprises</u> | | | | |
| Federal Home Loan Bank | \$ 11,203,289 | Aaa | AA+ | 4.79 |
| FHLMC ¹ Bonds | 3,268,525 | Aaa | AA+ | 12.45 |
| FNMA ² Medium Term Notes | 15,901,829 | Aaa | AA+ | 14.63 |
| FNMA ² Mortgage Backed Securities | 437,032 | Aaa | AA+ | 12.92 |
| | <u>\$ 30,810,675</u> | | | |
| U.S. Treasury Bonds | 5,999,316 | Aaa | AA+ | 6.46 |
| U.S. Treasury Notes | 4,836,664 | Aaa | AA+ | 1.88 |
| U.S. Treasury Bills – Short Term (at amortized cost) | 5,505,073 | Aaa | A-1+ | 1.00 |
| Trustee Money Market Accounts (at amortized cost) ³ | 102,960,075 | NR | NR | N/A |
| Total Investments (including Money Market) | <u>\$ 150,111,803</u> | | | |

¹ Federal Home Loan Mortgage Corporation

² Federal National Mortgage Association

³ Money Market Accounts are included in Cash Equivalents on the financial statements

NR Not Rated

NA Not Applicable

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NOTE 4. FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices are determined using unobservable inputs.

| | June 30, 2021 | Fair Value Measurement Using | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) ¹⁰ | Significant Other Observable Inputs (Level 2) ¹⁰ | Significant Unobservable Inputs (Level 3) |
| Investments by Fair Value | | | | |
| Fixed income investments | | | | |
| U.S. Treasuries | \$ 10,835,980 | \$ 10,835,980 | | |
| Agency/Government Related | 30,373,643 | | 30,373,643 | |
| Commercial Mortgage Backed Securities | 437,032 | | 437,032 | |
| Total fixed income investments | \$ 41,646,655 | \$ 10,835,980 | \$ 30,810,675 | |
| Investments Measured at Amortized Cost¹¹ | | | | |
| Short Term U.S. Treasuries | 5,505,073 | | | |
| Money Market Accounts | 102,960,075 | | | |
| Total investments managed | \$ 150,111,803 | | | |

Note: Money Market are included in cash equivalents on the financial statements

NOTE 5. MORTGAGE LOANS RECEIVABLE

The Board's Single Family, Multifamily, Housing Trust Fund and Housing Montana Fund mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Those loans held for servicing by the Servicing program are not deemed pledged mortgages and are not included in the table below.

All Board mortgage loans purchased are for properties located within Montana and held to maturity. Board loans are secured by first liens on real property and are insured by the Federal Housing Administration (FHA), are guaranteed by the Veterans' Administration (VA), United States Department of Agriculture Rural Development (RD) program, private mortgage insurance (Single Family 1977 Indenture only), or are uninsured if the mortgages have a loan to value of less than 80%.

¹⁰ Fixed income investments classified in Level 1 of the fair value hierarchy above are valued using prices quoted from live sources such as active markets and inter-dealer brokers. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

¹¹ Investments measured at amortized cost are included to account for U.S. Treasuries that have a remaining maturity of one year or less upon acquisition.

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In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Collateralized mortgage loans receivable¹², as of June 30, 2021, consist of the following:

| | |
|--|-----------------------|
| Single Family Program | \$ 481,517,755 |
| Multifamily Program | 5,798,255 |
| Housing Trust Program | 2,696,491 |
| Housing Montana Fund | 2,134,821 |
| | <u>492,147,322</u> |
| Net mortgage discounts and premiums | 4,553,106 |
| Allowances for losses and real estate owned (Note 6) | (300,000) |
| Net Collateralized Mortgage Loans Receivable | <u>\$ 496,400,428</u> |

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is reported as the outstanding loan balance.

The June 30, 2021 allowances for loan losses include \$100,000 for mortgage bad debt and \$200,000 for future estimated losses on real estate owned property. The Board held zero (0) real estate owned properties as of June 30, 2021. . Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgage receivable balance (Note 5).

The following summarizes activity in the allowance for loan losses and real estate owned:

| | |
|-----------------------------|-------------------|
| Balance as of June 30, 2020 | \$ 300,000 |
| Plus: Additional provision | — |
| Less: Net loans charged off | — |
| Balance as of June 30, 2021 | <u>\$ 300,000</u> |

¹² Collateralized mortgage loans receivable do not include loans receivable by the Servicing Department in the amount of \$ 1,224,310.

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NOTE 7. CAPITAL ASSETS AND CAPITAL LEASES

Capital assets consist primarily of computer software and equipment and other office equipment. Capital leases are for leased copy machines. Capital asset balances as of June 30, 2021 are as follows:

| | |
|--------------------------|------------------|
| Capital Assets: | |
| Equipment | \$ 29,984 |
| Accumulated Depreciation | (19,005) |
| Capital Assets, net | <u>\$ 10,979</u> |

Depreciation expense included in general and administrative expense was \$6,481 for the year ended June 30, 2021. The amortization of the leased assets are included in depreciation expense. Leases are not included in Net Investment in capital assets on the Statement of Net Position but are included in net capital assets.

NOTE 8. LONG-TERM DEBT

The Board has no variable interest rate debt obligations and does not swap interest rates. The following bonds are fixed rate mortgage revenue or general obligation bonds. Bonds payable, net of premium or discount, consists of the following as of June 30, 2021:

| Single Family I Mortgage Bonds: | Original Amount | Balance |
|---|-----------------|---------------|
| 2015 | | |
| Series B-1 and B-2 serial and term bond at 0.50% to 4.0% maturing in scheduled semi-annual installments to December 1, 2026, December 1, 2030, December 1, 2038, and December 1, 2042. | \$ 64,400,000 | \$ 27,065,000 |
| 2016 | | |
| Series A-1 and A2 serial and term bonds at 0.65% to 3.50% maturing in scheduled semi-annual installments to December 1, 2027, December 1, 2031, December 1, 2036, December 1, 2039, June 1, 2042, and June 1, 2044. | \$ 64,645,000 | \$ 39,815,000 |
| 2017 | | |
| Series A-1 and A-2 serial and term bonds at 1.00% to 4.00% maturing in scheduled semi-annual installments to December 1, 2028, December 1, 2032, December 1, 2037, and December 1, 2045. | \$ 41,900,000 | \$ 23,825,000 |
| 2017 | | |
| Series B-1 and B-2 serial and term bonds at 0.85% to 4.00% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2032, December 1, 2037, December 1, 2042, December 1, 2047, and December 1, 2048 | \$ 42,600,000 | \$ 28,260,000 |
| 2018 | | |
| Series B serial and term bonds at 1.65% to 4.0% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2033, June 1, 2037, and December 1, 2043 | \$ 50,000,000 | \$ 32,810,000 |
| 2019 | | |
| Series B serial and term bonds at 1.30% to 4.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049, and June 1, 2050. | \$ 30,000,000 | \$ 26,260,000 |

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2020

| | | | | |
|---|----|------------|----|------------|
| Series A-1 and A-2 serial and term bonds at 1.10% to 3.50% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049 and June 1, 2050. | \$ | 42,425,000 | \$ | 37,625,000 |
|---|----|------------|----|------------|

2020

| | | | | |
|--|----|------------|----|------------|
| Series B serial and term bonds at 0.75% to 4.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050. | \$ | 37,200,000 | \$ | 34,070,000 |
|--|----|------------|----|------------|

2020

| | | | | |
|---|----|------------|----|------------|
| Series C serial and term bonds at 0.15% to 3.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050 | \$ | 30,000,000 | \$ | 29,790,000 |
|---|----|------------|----|------------|

2021

| | | | | |
|--|----|------------|----|------------|
| Series A serial and term bonds at 0.30% to 3.00% maturing in scheduled semi-annual installments to December 1, 2036, December 1, 2041, December 1 2046, December 1, 2050, and June 1, 2051 | \$ | 43,410,000 | \$ | 43,410,000 |
|--|----|------------|----|------------|

| | | | | |
|-------------------------------------|----|-------------|--|-------------|
| Bonds outstanding Single Family I | \$ | 322,930,000 | | |
| Unamortized bond premium (discount) | | | | 8,289,070 |
| Total Bonds Payable Single Family I | | | | 331,219,070 |

Single Family II Mortgage Bonds

Original Amount

Balance

2013

| | | | | |
|--|----|------------|----|------------|
| Series A-1, A-2, and A-3 serial and term bonds at 0.20% to 3.75% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2037, December 1, 2038, December 1, 2043, and June 1, 2044. | \$ | 73,000,000 | \$ | 24,010,000 |
|--|----|------------|----|------------|

2013

| | | | | |
|--|----|------------|----|------------|
| Series B-1 and B-2 serial and term bonds at 0.45% to 5.30% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2038, December 1, 2043, and December 1, 2044. | \$ | 59,980,000 | \$ | 16,120,000 |
|--|----|------------|----|------------|

2014

| | | | | |
|---|----|------------|----|------------|
| Series A-1, A-2 and A-3 serial and term bonds 0.25% to 4.15% maturing in semi-annual installments to December 1, 2025, December 1, 2029, June 1, 2032, December 1, 2035 and December 1, 2043. | \$ | 71,500,000 | \$ | 31,485,000 |
|---|----|------------|----|------------|

2015

| | | | | |
|--|----|------------|----|-----------|
| Series A serial and term bonds at 0.20% to 3.50% maturing in semi-annual installments to December 1, 2026, December 1, 2029, December 1, 2034, and June 1, 2040. | \$ | 20,000,000 | \$ | 5,525,000 |
|--|----|------------|----|-----------|

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2018

Series A serial and term bonds at 1.65% to 4.00% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, December 1, 2043, December 1, 2048, and June 1, 2049. \$ 38,450,000 \$ 29,220,000

2019

Series A serial and term bonds at 1.85% to 4.25% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, June 1, 2045, and December 1, 2045. \$ 40,000,000 \$ 31,885,000

| | | |
|--------------------------------------|--|----------------|
| Bonds outstanding Single Family II | | \$ 138,245,000 |
| Unamortized bond premium (discount) | | 1,748,735 |
| Total Bonds Payable Single Family II | | \$ 139,993,735 |

Single Family XI Mortgage Bonds:

2009

| | Original Amount | Balance |
|---|-----------------|--------------|
| Series D Term Bonds at 2.79% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2012 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program. | \$ 25,000,000 | \$ 7,260,000 |

2012

| | | |
|--|---------------|---------------|
| Series A-1 and A-2 serial and term bonds, 0.375% to 4.00%, maturing in semi-annual installments to December 1, 2024, December 1, 2027, December 1, 2030, and December 1, 2038. | \$ 56,280,000 | \$ 10,895,000 |
|--|---------------|---------------|

| | | |
|--------------------------------------|--|---------------|
| Bonds outstanding Single Family XI | | \$ 18,155,000 |
| Unamortized bond premium (discount) | | 105,897 |
| Total Bonds Payable Single Family XI | | \$ 18,260,897 |

Single Family General Obligation Bonds:

2008

| | Original Amount | Balance |
|--|-----------------|------------|
| Series A General Obligation Private Placement Bonds. | \$ 497,942 | \$ 213,216 |

| | | |
|---|--|----------------|
| Total Single-Family Mortgage Bonds Payable, Net | | \$ 489,686,918 |
|---|--|----------------|

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 106%.

Single Family I, II and XI mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indentures.

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Board of Housing Essential Workers' Program

The Board has authorized the issuance of \$1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2021, \$497,942 of bonds have been issued.

| Multifamily Mortgage Bonds: | Original Amount | Balance |
|---|------------------------|---------------------|
| 1998 | | |
| Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029. | \$ 1,625,000 | \$ 165,000 |
| 1999 | | |
| Series A 4.95% to 8.45% interest, term bonds, maturing in scheduled semi-annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2039, and August 1, 2041. | \$ 9,860,000 | \$ 4,130,000 |
| Bonds outstanding Multifamily | | \$ 4,295,000 |
| Unamortized bond premium (discount) | | (19,294) |
| Total Multifamily Mortgage Bonds Payable, Net | | \$ 4,275,706 |

All Multifamily mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 102%. The 1998A Multifamily bonds are general obligations of the Board.

Combined Total Single and Multifamily Bonds Payable, Net **\$ 493,962,624**

The following is a summary of bond principal and interest requirements as of June 30, 2021:

| Fiscal year ending | Single Family Principal & Interest Total | Multifamily Principal and Interest Total | Single and Multifamily Principal Only Total | Single and Multifamily Interest Only Total |
|---------------------------|---|---|--|---|
| June 30: | | | | |
| 2022 | \$ 31,741,844 | \$ 377,618 | \$ 16,820,000 | \$ 15,299,462 |
| 2023 | 32,301,564 | 380,229 | 17,745,000 | 14,936,793 |
| 2024 | 32,638,178 | 396,975 | 18,510,000 | 14,525,153 |
| 2025 | 32,282,632 | 392,710 | 18,590,000 | 14,085,342 |
| 2026 | 35,006,639 | 387,858 | 21,775,000 | 13,619,496 |
| 2027-2031 | 160,960,132 | 1,836,456 | 104,065,000 | 58,731,588 |
| 2032-2036 | 140,745,239 | 1,679,800 | 101,050,000 | 41,375,039 |
| 2037-2041 | 107,875,430 | 1,923,200 | 84,458,216 | 25,340,414 |
| 2042-2046 | 76,923,976 | — | 65,305,000 | 11,618,976 |
| 2047-2051 | 38,133,156 | — | 35,520,000 | 2,613,156 |
| Total | \$ 688,608,790 | \$ 7,374,846 | \$ 483,838,216 | \$ 212,145,419 |

Cash paid for interest expenses during the year ended June 30, 2021 was \$17,528,829.

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Summary of Changes in Long-term Liabilities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due in More Than One Year |
|---|----------------------|---------------------|----------------------|----------------------|-----------------------------------|--|
| Bonds payable | | | | | | |
| Single Family, net | \$526,888,477 | \$73,708,442 | \$110,910,001 | \$489,686,918 | \$16,695,000 | \$472,991,918 |
| Multifamily, net | 4,394,068 | 1,638 | 120,000 | 4,275,706 | 125,000 | 4,150,706 |
| Total bonds/notes payable, net | 531,282,545 | 73,710,080 | 111,030,001 | 493,962,624 | 16,820,000 | 477,142,624 |
| Arbitrage Payable | 1,120,690 | 233,589 | 593,665 | 760,614 | 521,085 | 239,529 |
| Compensated absences payable¹³ | 361,782 | 805 | — | 362,587 | 112,848 | 249,739 |
| Net pension liability¹³ | 1,870,826 | 683,464 | — | 2,554,290 | — | 2,554,290 |
| OPEB implicit rate subsidy¹⁴ | 64,138 | 316,085 | — | 380,223 | — | 380,223 |
| Lease Obligation | 14,569 | — | 6,180 | 8,389 | 6,275 | 2,114 |
| Total other liabilities | 3,432,005 | 1,233,943 | 599,845 | 4,066,103 | 640,208 | 3,425,895 |
| Total Business-type activities long-term liabilities | <u>\$534,714,550</u> | <u>\$74,944,023</u> | <u>\$111,629,846</u> | <u>\$498,028,727</u> | <u>\$17,460,208</u> | <u>\$480,568,519</u> |

¹³ The compensated absences liability and pension liability will be liquidated by several enterprise funds. The arbitrage rebate tax payable will be liquidated by various rebate funds.

¹⁴ The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an “implicit rate” subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the Board.

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NOTE 9. BOND REDEMPTIONS

During the year ended June 30, 2021 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

| | |
|-------------------------|---------------|
| Single Family I | |
| December 1 | \$ 12,270,000 |
| June 1 | 33,445,000 |
| | 45,715,000 |
| | |
| Single Family II | |
| December 1 | 9,715,000 |
| June 1 | 18,015,000 |
| | 27,730,000 |
| | |
| Single Family XI | |
| December 1 | 5,800,000 |
| April 1 | 7,680,000 |
| June 1 | 9,110,000 |
| | 22,590,000 |
| | |
| Total | \$ 96,035,000 |

All bonds were redeemed at par or 100% of their compounded value to date of redemption.

NOTE 10. COMMITMENTS

Single Family Indentures - The Board has bond proceeds available for the purchase and reservation of single family mortgages of approximately \$13,580,021 in the Single Family I and II Indentures.

The Board has also committed to purchase Single Family Mortgages as noted below:

| | |
|--|---------------------|
| Foreclosure Prevention | \$ 50,000 |
| Disabled Affordable Accessible Homeownership | 862,950 |
| Lot Refinance | 726,440 |
| Habitat for Humanity | 1,472,671 |
| Total Single-Family Commitments | \$ 3,112,061 |

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts: \$ 3,102,939

Housing Trust Fund Program:

Reverse Annuity Mortgage Program Funds: \$5,219,810

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NOTE 11. EMPLOYEE BENEFIT PLANS

Summary of Significant Accounting Policies – Defined Benefit Retirement Plan (DBRP)

Montana Public Employee Retirement Administration (MPERA) prepared its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements. MPERA applied all applicable pronouncements of GASB.

General Information about the Pension Plan

Plan Description

The PERS - DBRP, administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapter 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by State law and can only be amended by the Legislature.

All new PERS members are initially members of the PERS - DBRP and have a 12-month window during which they may choose to remain in the PERS - DBRP or join the PERS - Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Benefits are established by State law and can only be amended by the Legislature. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Benefits provided

The PERS - DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Members rights are vested after five years of service.

Service Retirement:

- | | |
|----------------------------------|--|
| | Age 60, 5 years of membership service |
| • Hired prior to July 1, 2011: | Age 65, regardless of membership |
| | Any age, 30 years of membership |
| • Hired on or after July 1, 2011 | Age 65, 5 years of membership |
| | Age 70, regardless of membership |

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Early Retirement:

- Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.
- Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer or PERS service)

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018)
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016 and accumulate at least 2 years of additional service credit;
 - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011: HAC during any consecutive 36 months
- Hired on or after July 1, 2011: HAC during any consecutive 60 months

Compensation Cap

- Hired on or after July 1, 2013: 110% annual cap on compensation considered as a part of a member's highest average compensation

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Monthly benefit formula

- Members hired prior to July 1, 2011:
 - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
 - 25 years of membership service or more: 2% of HAC per year of service credit.

- Members hired on or after July 1, 2011:
 - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
 - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit
 - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided above) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

Contributions

The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Special Funding

The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as special funding. Those employers, including the Board, who received special funding are all participating employers.

Not Special Funding

Per Montana law, State agencies, including the Board, paid their own additional contributions. The employer paid contributions are not accounted for as special funding but are reported as employer contributions.

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Member and employer contribution rates are shown in the table below.

| Fiscal Year | Member | | Employer |
|-------------|------------------|------------------|----------|
| | Hired < 07/01/11 | Hired > 07/01/11 | |
| 2021 | 7.900% | 7.900% | 8.870% |
| 2020 | 7.900% | 7.900% | 8.770% |
| 2019 | 7.900% | 7.900% | 8.670% |
| 2018 | 7.900% | 7.900% | 8.570% |
| 2017 | 7.900% | 7.900% | 8.470% |
| 2016 | 7.900% | 7.900% | 8.370% |
| 2015 | 7.900% | 7.900% | 8.270% |
| 2014 | 7.900% | 7.900% | 8.170% |
| 2012-2013 | 6.900% | 7.900% | 7.170% |
| 2010-2011 | 6.900% | | 7.170% |
| 2008-2009 | 6.900% | | 7.035% |
| 2000-2007 | 6.900% | | 6.900% |

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
 - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- Non-Employer Contributions:
 - Special Funding
 - The State contributed 0.1% of members' compensation on behalf of local government entities.
 - The State contributed 0.37% of members' compensation on behalf of school district entities.
 - The State contributed a Statutory Appropriation for the General Fund of \$33,951,150

Pension Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's Total Pension Liability (TPL). The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost

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(also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the affects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate share of the Board's and the State of Montana's NPL as of the measurement date for June 30, 2020 are displayed below. The Board's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The State's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total State contributions paid. The Board recorded a liability of \$2,554,290 and the employers proportionate share of the collective NPL was 0.137% percent.

| As of measurement date | Net Pension Liability as of June 30, 2020 | Net Pension Liability as of June 30, 2019 | Percent of Collective NPL as of June 30, 2020 | Percent of Collective NPL as of June 30, 2019 | Change in Percent of Collective NPL |
|--|---|---|---|---|-------------------------------------|
| Board of Housing Proportionate Share | \$ 2,554,290 | \$ 2,005,526 | 0.137 % | 0.129 % | 0.001 % |
| State of Montana Proportionate Share associated with the Board | 774,355 | 628,538 | 0.001 % | 0.030 % | (0.001)% |
| Total | \$ 3,328,645 | \$ 2,634,064 | 0.138 % | 0.159 % | — % |

Changes subsequent to the measurement date

Since the measurement date, the plan has experienced significant investment returns that are expected to have a favorable impact on the net pension liability.

Changes in actuarial assumptions and methods

The following changes in assumptions or other inputs were made that affected the measurement of TPL.

1. The discount rate was lowered from 7.65% to 7.34%
2. The investment rate of return was lowered from 7.65% to 7.34%
3. The inflation rate was reduced from 2.75% to 2.40%

Changes in benefit terms

There have been no changes in benefit terms since the previous measurement period.

Changes in Proportionate share

There were no changes between the measurement date of the collective NPL and the Board's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense

At June 30, 2020, the Board recognized \$402,729 for its proportionate share of the Plan's pension expense. Additionally, the Board recognized grant revenue of \$126,640 from the State Statutory Appropriations from the General fund.

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Recognition of Deferred Inflows and Outflows

At June 30, 2020, the Board reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Expected vs. Actual Experience | \$ 41,231 | \$ 73,031 |
| Projected Investment Earning vs. Actual Investment Earnings | 221,179 | — |
| Changes in assumptions | 176,875 | — |
| Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions | — | 110,379 |
| Employer Contributions Subsequent to the Measurement Date | 162,162 | — |
| Total | <u>\$ 601,447</u> | <u>\$ 183,410</u> |

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| For the Measurement Year ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to the Pension Expense |
|--|--|
| 2021 | \$ (22,544) |
| 2022 | \$ 145,879 |
| 2023 | \$ 77,282 |
| 2024 | \$ 55,259 |
| Thereafter | \$ 0 |

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Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions.

| | |
|--|---|
| Investment Return (net of admin expense) | 7.34% |
| Administration Expense as a Percentage of Payroll | 0.30% |
| General Wage Growth * | 3.50% |
| *Includes Inflation at | 2.40% |
| Merit Increases | 0% to 4.80% |
| Postretirement Benefit Increases | |
| Guaranteed Annual Benefit Adjustment (GABA) each January | |
| • After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to member the member's benefit. | |
| ◦ Members hired prior to July 1, 2007 | 3.0% |
| ◦ Members hired between July 1, 2007 & June 30, 2013 | 1.5% |
| ◦ Members hired on or after July 1, 2013 | |
| ▪ For each year PERS is funded at or above 90% - the 1.5% is reduced by 0.1% for each 2.0% PERS is below 90% | 1.5% |
| ▪ 0% whenever the amortization period for PERS is 40 years or more | 0.0% |
| Mortality | RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males |
| • Contributing members, service retired members & beneficiaries | |
| • Disabled Members | RP-2000 Combined Mortality Tables, with no projections |

The most recent experience study, performed for the period of fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and is located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the Survey of capital market assumptions 2020 edition by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in 2020 OASDI Trustees Report by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, are summarized in the table below.

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| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|-------------------------|--|
| Cash | 2.00 % | 0.11% |
| Domestic Equity | 30.00 % | 6.19% |
| International Equity | 16.00 % | 6.92% |
| Private Investments | 14.00 % | 10.37% |
| Natural Resources | 4.00 % | 3.43% |
| Real Estate | 9.00 % | 5.74% |
| Core Fixed Income | 20.00 % | 1.57% |
| Non-Core Fixed Income | 5.00 % | 3.97% |
| Total | 100.0 % | |

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a statutory appropriation from the general fund.

The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

| | 1.0% Decrease | Current Discount Rate | 1.0% Increase |
|------------------------|----------------------|------------------------------|----------------------|
| | (6.34)% | (7.34)% | (8.34)% |
| DBRP Total Plan | \$ 22,959,111 | \$ 16,680,057 | \$ 11,405,695 |
| BOH | \$ 3,515,829 | \$ 2,554,290 | \$ 1,746,604 |

Disclosure for the defined contribution plan

PERS also manages a defined contribution retirement plan (PERS-DCRP) that is reported as a multiple-employer plan established July 1, 2002, and governed by title 19, chapter 2 &3, MCA. PERS-DCRP benefits are based on individual account balances. Member rights are immediately vested in their own contributions and attributable income. Members are vested after five years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5) MCA. Forfeitures are used to pay the administrative

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expenses of the DCRP. At the plan level, the DCRP employer did not recognize any Net Pension Liability or pension expense.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by State law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contribution to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the year ended June 30, 2020, the Board did not recognize a net pension liability or any pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 329 employers that have participants in the DCRP totaled \$775,195.

Pension Plan Fiduciary Net Position

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at P O Box 200131, Helena, MT 59620-0131, (460) 444-3154 or both are available on the MPERA website at <https://mpera.mt.gov>

Deferred Compensation Plan

The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

Health Care

Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. Montana Department of Administration established premiums for medical, basic vision and dental coverage for employees at \$30 per month. Administratively established medical premiums for the spouse of employee and employee's family vary between \$101 and \$327 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$19.90 and \$28.90 per month for spouse and family dental coverage and between \$7.64 and \$22.26 per month for an optional vision hardware plan depending on family coverage and eligibility.

The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 20% to 50% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

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NOTE 12. ARBITRAGE REBATE LIABILITY

The Board has established an accrual for the liability for estimated arbitrage payments due to the United States Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and “allowable” interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

The Board made \$ 593,665 in arbitrage rebate cash payments, from the arbitrage rebate and yield liability accounts, to The United States Treasury Department in FY21. The related liability was \$760,614 as of June 30, 2021.

| | |
|-----------------------------|-------------|
| Balance as of June 30, 2020 | \$1,120,690 |
| Plus: Increases | 233,589 |
| Less: Reductions | 593,665 |
| Balance as of June 30, 2021 | \$760,614 |

NOTE 13. NO-COMMITMENT DEBT

The Board is authorized by the State of Montana to issue bonds to finance affordable housing for Montana residents. To meet this purpose, the Board may issue bonds (no-commitment debt) on behalf of third parties (borrower).

These bonds are not general obligations, debts, liabilities or pledges of faith and credit of the Board but are special limited obligations payable solely from pledged revenues and assets of the borrower. The Board is not obligated to make payment on the bonds from any of its assets. Accordingly, these bonds are not reflected in the accompanying financial statements.

The bonds are not a debt of the State and the State is not liable for the bonds. Neither the State’s faith or credit or taxing power is pledged to the payment of bond principal or interest. The Board has no taxing power.

The outstanding balances of these bonds as of June 30, 2021 are as follows:

| Bond Series | Original Amount | Balance |
|---|-----------------|------------------|
| Multifamily Housing Revenue Bond Series 2007 (South Forty Apartments) | \$ 5,100,000 | \$ 4,395,883 |
| Multifamily Housing Revenue Bond Series 2012 A-1 (Rainbow/Silver Bow Apartments) | \$ 857,000 | \$ 749,990.22 |
| Multifamily Housing Revenue Bond Series 2012 A-2 (Rainbow/Silver Bow Apartments) | \$ 4,032,000 | \$ 3,537,847.29 |
| Multifamily Housing Revenue Bond Series 2012 B-1 (Rainbow/Silver Bow Apartments) | \$ 850,713 | \$ 830,364.54 |
| Multifamily Housing Revenue Bond Series 2015 A (Larkspur Commons Apartments) | \$ 15,500,000 | \$ 11,578,788.53 |
| Multifamily Housing Revenue Bond Series 2017 (Big Sky Manor Apartments) | \$ 4,500,000 | \$ 3,837,370.48 |
| Multifamily Housing Revenue Bond Series 2018 (Copper Ridge Ridge 4 Apartments) | \$ 3,584,712 | \$ 3,584,712 |
| Multifamily Housing Revenue Bond Series 2018 (Rockcross Commons Apartments) | \$ 15,000,000 | \$ 8,730,793.13 |

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| Bond Series | Original Amount | | Balance |
|--|------------------------|------------|------------------|
| Multifamily Housing Revenue Bond Series 2018 (Starner Gardens Apartments) | \$ | 15,000,000 | \$ 9,406,814 |
| Multifamily Housing Revenue Bond Series 2019 (Red Alder Residences) | \$ | 6,000,000 | \$ 5,992,894.7 |
| Multifamily Housing Revenue Bond Series 2020 (Emporda Apartments) | \$ | 3,600,000 | \$ 3,240,000 |
| Multifamily Housing Revenue Bond Series 2020 (Ponderosa Acres) | \$ | 20,915,000 | \$ 20,915,000 |
| Multifamily Housing Revenue Bond Series 2020 (Butte I Affordable Owner I) | \$ | 13,200,000 | \$ 13,200,000 |
| Multifamily Housing Revenue Bond Series 2020 (Butte Affordable Owner II) | \$ | 29,300,000 | \$ 29,300,000 |
| Multifamily Housing Revenue Bond Series 2020 (Arrowleaf Park Apartments) | \$ | 26,000,000 | \$ 10,024,499.39 |
| Multifamily Housing Revenue Bond Series 2020 (Perennial Park Apartments) | \$ | 19,000,000 | \$ 10,722,566.07 |
| Multifamily Housing Revenue Bond Series 2021 (Trinity Apartments) | \$ | 36,000,000 | \$ 1,973,994.39 |
| Multifamily Housing Revenue Bond, Series 2021 (DMS Portfolio Project) | \$ | 28,500,000 | \$ 28,500,000 |
| Multifamily Housing Revenue Bond, Series 2021 (Villagio Apartments) | \$ | 43,000,000 | \$ 50,001 |
| Multifamily Housing Revenue Bond, Series 2021 (Boulevard Apartments) | \$ | 7,000,000 | \$ 7,000,000 |

NOTE 14. REFUNDING AND DEFERRED BOND COSTS

The Board may refund all or a portion of the Board's outstanding bonds when it is economically advantageous to do so. Refundings involve the issuance of new debt with the proceeds being used to repay previously issued debt.

GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, and GASB Statement No. 65, requires deferred costs to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. Previous to the implementation of GASB Statement No. 65 deferred refunding costs included unamortized cost of issuance of the refunded bonds.

Deferred Bond Costs

On June 30, 2021, there were \$151,230 in unamortized deferred refunding costs from prior years' refundings. These costs are associated with the refundings and were deferred. They are being amortized under the GASB Statement No. 23 and GASB Statement No. 65 guidelines.

Refundings

On March 31, 2021, the Board issued \$43,410,000 of Single Family Family Mortgage Bonds, Series 2021 A (1977 Single Family I Indenture, amended and restated as of May 1, 1997). Bond proceeds of \$13,410,000 were used as a replacement refunding of the 2011B/2009C Series to reduce debt service payments over the remaining life of the original series. The refunding was a current refunding, thus no economic gain or loss has been calculated.

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NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information Non-trust Plan

The Board provides optional post-employment (OPEB) healthcare benefits in accordance with Section 2-18-704, MCA. This coverage applies to the following employees and dependents who elect to continue coverage and pay administratively established contributions: 1) employees and dependents who retire under applicable retirement provisions and 2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the Board provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS), and elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for the plan. Detail on retirement plans is available in Note 11.

Plan Description

The OPEB plan is reported as a single-employer plan. The Board pays for post employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Montana Department of Administration for the State group health insurance plan. The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plan or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plan.

As listed in the Montana State 2020 Retirement Health Benefits Planning Book, the premiums varied between \$457 and \$2,172 per month, depending on coverage selected and Medicare eligibility. Administratively established dental contributions vary between \$41.10 and \$70.00 and vision hardware contributions vary between \$7.64 and \$22.26 depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

Basis of Accounting

Total OPEB liability is reported on an accrual basis on the Board financial statement. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The plan states that an employee enrolled in the OPEB plan who (a) at least meets the early retirement criteria defined by the Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the benefit office, within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2021.

As of December 31, 2020, there are 36 active employees and 3 retired employees, spouses and surviving spouses for a total of 39 participating in the plan.

Schedule of Changes in Total OPEB Liability

The following table presents the other items related to and changes in the total OPEB liability:

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| | |
|---|-------------------|
| Beginning Balance | |
| April 1, 2020 | \$ 64,138 |
| Service Cost | 1,701 |
| Interest | 1,792 |
| Difference between expected and actual experience | 192,370 |
| Changes of assumptions or other inputs | 121,614 |
| Benefit Payments | <u>(1,392)</u> |
| Net Changes | \$ 316,085 |
| Balances at | |
| June 30, 2021 | <u>\$ 380,223</u> |

Benefits Provided

Non-Medicare retirees may continue the core plan, which includes medical, dental and basic life insurance. Vision coverage is optional. Medical, dental and/or vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage. Dental and vision coverage is optional, and no life insurance is available. Medical, dental and/or vision coverage is optional for dependents. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

A retiree may continue coverage for a spouse who does not work for the State. If coverage is not continued, the spouse may only be added when the spouse loses eligibility for other coverage. If the retiree and spouse both work for the State, the retiree may elect to be covered under the working spouse and retains the right to exercise the transfer option. Dependent medical or dental coverage can only be continued if the retiree continues medical and/or dental coverage.

A surviving spouse may elect to continue their medical, dental, and/or vision coverage until Medicare age, at which time they will be offered COBRA and no longer be eligible for the plan. For surviving spouses already of Medicare age, they will be offered COBRA and lose eligibility under the plan at the end of the offering month.

Actuarial assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the Board's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of the plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the Boards' TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

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The State's OPEB plan TOL actuarial valuation on December 31, 2020, rolled forward to March 31, 2021, was determined using the following actuarial assumptions and other inputs and applied to all periods included in the measurement, unless otherwise specified:

| Contributions (in thousands): | Retiree/Surviving Spouse | Spouse |
|--------------------------------------|---|---------------|
| Before Medicare eligibility | \$15,505 | \$3,025 |
| After Medicare eligibility | 3,238 | 1,573 |
| | | |
| Actuarial valuation date | December 31, 2020 | |
| | | |
| Measurement date | March 31, 2021 | |
| Actuarial funding method | Entry age normal | |
| Asset valuation | Not applicable since no assets meet the definition of plan assets under GASB 75 | |

Actuarial assumptions:

| | |
|-----------------------------|---|
| Interest / discount rate | 2.23% |
| Projected payroll increases | 2.50% |
| Average retirement age | |
| Pre-65 Retirees | 61.50 |
| Post-65 Retirees | 77.00 |
| Participation | 40% of future retirees and 70% of future retirees who elect medical coverage and are married are assumed to elect spousal coverage as well. |

Marital status Actual spouse information is used for current retirees. Marital status at retirement for future members assumed to be 70%. Males are assumed to be 3 years older than females.

| | |
|--------------------------------|--|
| Healthcare cost trend rates | The current medical health care cost trend rate is 6.0%. Annual decreases begin in 2022 with an ultimate rate of 3.8%. The current Prescription |
| Retiree Contribution Increases | Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is 0.00% in 2021 increasing up to 7.1% and then decreasing up to 0.03% per year to an ultimate rate of 3.8% |

Mortality - Healthy: Healthy mortality rate for all other groups except the Teachers' Retirement System (TRS), healthy mortality is assumed to follow the RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: The disabled mortality rate assumed to follow the RP2000 Combined Mortality Table with no projections.

Changes Since Prior Valuation: Interest rate/Discount rate based upon Multiple March 31, 2021 municipal bond rate sources. An increase in deferred outflows due to no retiree contribution increase and due to a decrease in the interest rate from 2.75% to 2.23%

Changes in benefit terms since last measurement date: None

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Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (DR-1 percent) or 1-percentage-point higher (DR+1 percent) than the current discount rate:

| | | State Total OPEB Liability | | BOH OPEB Liability | | State Actuarially Determined Contribution | | BOH Actuarially Determined Contribution |
|------------------------------|-------|---------------------------------------|----|-------------------------------|----|--|----|--|
| 1.0% Decrease | 1.23% | \$ 186,274,056 | \$ | 489,829 | \$ | 21,639,313 | \$ | 57,808 |
| Current Discount Rate | 2.23% | \$ 147,513,472 | \$ | 380,223 | \$ | 16,101,058 | \$ | 42,406 |
| 1.0% Increase | 3.23% | \$ 118,458,265 | \$ | 298,459 | \$ | 12,167,590 | \$ | 31,481 |

Sensitivity of Net OPEB liability to Changes in the Healthcare Cost Trend Rate:

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | | State Total OPEB Liability | | BOH OPEB Liability | | State Actuarially Determined Contribution | | BOH Actuarially Determined Contribution |
|------------------------------|-------|---------------------------------------|----|-------------------------------|----|--|----|--|
| 1.0% Decrease | 5.00% | \$ 116,506,565 | \$ | 293,011 | \$ | 12,147,785 | \$ | 31,297 |
| Current Discount Rate | 6.00% | \$ 147,513,472 | \$ | 380,223 | \$ | 16,101,058 | \$ | 42,406 |
| 1.0% Increase | 7.00% | \$ 190,340,880 | \$ | 501,278 | \$ | 21,713,524 | \$ | 58,213 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the Board had an OPEB expense of \$23,157. At June 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------|---|--|
| Expected vs Actual | \$ 201,664 | \$ (5,499) |
| Changes in assumptions | 113,997 | (15,361) |
| Contributions | 4,926 | |
| Total | \$ 320,587 | \$ (20,860) |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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| Year Ended June 30 | Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense | |
|-----------------------|---|---------|
| 2021 | \$ | 24,112 |
| 2022 | \$ | 24,112 |
| 2023 | \$ | 24,112 |
| 2024 | \$ | 24,112 |
| 2025 | \$ | 24,112 |
| 2026 | \$ | 24,112 |
| Thereafter | \$ | 174,243 |

Payable to the OPEB Plan

At March 31, 2021, the Board reported a payable of \$380,223 for the outstanding amount of contributions to the Department of Administration required for the year ended June 30, 2021. The Board's employer contributions between April 1, 2021 and June 30, 2021 were \$4,948.65.

Net OPEB Liability

The Board's net OPEB liability of \$380,223 is approximately 0.26% of the total primary government OPEB liability of \$147,513,472 as measured on March 31, 2021 as a basis of the total group insurance premiums paid. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as December 31, 2020 with a rolled forward actuarial valuation measurement date of March 31, 2021.

General Information about the DCRP OPEB Plan

Per statute, participants that choose the PERS-DCRP retirement system are covered by the PERS-DCRP long-term disability plan. The disability plan provides disability benefits to plan members who are vested in the plan and are currently ineligible for retirement. A separate trust has been established for purposes of providing disability benefits to members. The assets are held in a trust capacity for the beneficiaries. The PERS issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the PERS at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

NOTE 16. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combined Statement of Revenues, Expenses and Changes in Net Position to report the Statement of Revenues, Expenses and Changes in Net Position for all programs net of interfund activity for June 30, 2021:

Fee Income and Servicers Fees related to in-house loan servicing \$ 2,212,465

NOTE 17 OPERATION DISRUPTION RISK - COVID-19

Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the Board's ability to conduct its business. A prolonged disruption in the Board's operations could have an adverse effect on the Board's financial condition and results of operations. To plan for and mitigate the impact such an event may have on

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its operations, the Board has developed a Montana Board of Housing Business Continuity Plan and a Housing Division Business Continuity Plan (collectively, the “Plan”). The Plan is designed to (i) evaluate the impact of such an event on the Board’s business function and processes, (ii) provide a priority ranking of these functions and processes to assist the Board’s leadership in allocating recovery resources based upon such priorities, and (iii) provide procedures to protect, restore or recover, as the case may be, the Board’s business functions and processes. No assurances can be given that the Board’s efforts to mitigate the effects of an emergency or other event will be successful in preventing any and all disruptions to its operations in the event of an emergency.

One such external event is the recent global outbreak of COVID-19 (“COVID-19”), a respiratory disease declared in 2020 to be a pandemic (the “Pandemic”) by the World Health Organization, and an emergency by federal and state governments. The Pandemic continues to affect the national capital markets and may negatively impact the State’s housing market in its overall economy. The threat from the Pandemic is being addressed on a national, federal, state and local level in various forms, executive orders and legislative actions.

Since the declaration, by the President of the United States, of a national emergency with respect to the pandemic, the United States Congress enacted several COVID-19-related bills. These bills include the Coronavirus Aid, Relief, Economic Security Act (CARES Act), the Consolidated Appropriations Act of 2021, and the American Rescue Plan Act of 2021 (ARPA). Through these programs, Montana has provided and continues to provide rental housing assistance, mortgage assistance and assistance with utilities to help prevent displacement of Montana residents.

Among other things, the CARES Act provides that during the COVID-19 emergency, borrowers of mortgage loans which are FHA insured, VA, HUD or Rural Housing guaranteed, or purchased or securitized by Fannie Mae or Freddie Mac (collectively, “Federal Single Family Loans”) who are directly or indirectly experiencing economic difficulties as a result of the coronavirus can seek up to 360 days of payment forbearance. Additionally, the CARES Act created a foreclosure and eviction moratorium on all Federal Single Family Loans. In addition to the foreclosure and eviction relief provided by the CARES Act, HUD/FHA and the Federal Housing Finance Agency (“FHFA”) also ordered the servicers of Federal Single Family Loans to suspend foreclosures and evictions of Federal Single Family Loans; HUD/FHA and FHFA have extended their maximum foreclosure moratorium up to an additional six months and eviction moratorium expires in September 30, 2021 for single-family residences. Effective June 30, 2021, the Board is servicing 211 forbearances. New HUD guidance issued on September 27th provides up to six months of COVID-19 forbearance between October 1, 2021 and the end of the COVID-19 national emergency.

The Pandemic is an ongoing situation. At this time the Board cannot predict (i) the duration or extent of the Pandemic or any other outbreak emergency; (ii) the duration or expansion of any foreclosure or eviction moratorium affecting the Board’s ability to foreclose and collect on delinquent mortgage loans; the number of mortgage loans that will be in forbearance or default as a result of the Pandemic and subsequent federal, state and local responses thereto, including the CARES Act; (iv) whether and to what extent the Pandemic or other outbreak or emergency may disrupt the local or global economy, real estate markets, manufacturing, or supply chain, or whether any such disruption may adversely impact the Board or its operations; (v) whether or to what extent the Board or other government agencies may provide additional deferrals, forbearances, adjustments, or other changes to payments on mortgage loans; or (vi) the effect of the Pandemic on the State budget, or whether any such effect may adversely impact the Board or its operations. However, the continuation of the Pandemic and the resulting containment and mitigation efforts could have a material adverse effect on the Board, its programs and its operations.

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NOTE 18 Adjustments to Beginning Net Position

During the reconciliation process a Homeward TANF foreclosure from a prior year was closed out. The prior-period adjustment included the unrecovered \$5,000 in principal and unrecovered interest in the amount of \$1,548.35 for a total prior period adjustment in the TANF fund of \$6,548.35.

NOTE 19 Subsequent Events

On August 1, 2021, the Board issued direction for a full optional redemption of the Series 1999A-1 Multifamily Bond in the amount of \$4,130,000.

On August 31, 2021, the 2021 Series B Single Family Mortgage Bonds, in the amount of \$32,000,000 closed.

On July 1, 2021, Stockman Bank transferred the servicing of 589 loans to the Board, with a total outstanding balance at the time of transfer of \$54,035,500.08.

The American Rescue Plan Act (ARPA) has provided funds to be used for a Homeowner Assistance Fund (HAF) which is to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowner's insurance, utility payments, and other specified purposes. Board borrowers may be eligible to apply to receive a HAF loan to help with these items. These loans will be serviced by the Board Servicing department and employees may assist in facilitating this program. The HAF is a Commerce program that will be accounted for in Commerce.

NOTE 20 Unusual Transactions

House Bill 0376 of the 66th Legislature repealed the Real Estate Recovery account, which was previously administered by the Board of Realty Regulations at the Department of Labor, and provided the transfer of remaining money in the account to the Housing Montana Fund. Section 3 of the bill required that the funds be transferred from the Real Estate Recovery account to the Housing Montana Fund on February 1, 2021.

On February 1, 2021, a transfer in the amount of \$501,433 was made from the Real Estate Recovery account to the Housing Montana Fund.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

Other Post-Employment Benefits (Financial Statements Note 15):

The State of Montana State Employee Group Benefits (SEGB) OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes.

**Total Board OPEB Liability and Related Ratios
Last 10 Fiscal Years¹⁵**

| For the fiscal year ended June 30 | Total Board OPEB Liability | Proportionate share of the collective total OPEB liability as a Percentage | Covered Employee Payroll | Share Covered Employee Payroll |
|--------------------------------------|-------------------------------|--|--------------------------------|---|
| 2018 | \$ 51,602 | 0.10 % | \$ 774,320 | 6.66 % |
| 2019 | \$ 54,230 | 0.10 % | \$ 684,204 | 7.93 % |
| 2020 | \$ 64,138 | 0.14 % | \$ 753,654 | 8.56 % |
| 2021 | \$ 380,223 | 0.26 % | \$ 1,882,278 | 20.33 % |

Note to Schedule: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Factors that significantly affect trends in the amounts reported for OPEB Liabilities:

Changes of benefit terms, the medical plan coverage moved from Cigna to allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from URx to Navitus as of January 1, 2017, and the State implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

During FY21 there was a significant increase in the OPEB liability that was due to several factors. There was a reduction of the number of covered retirees by 13.4%. The drop was also driven by the fact there was no change in retiree contributions and a reduction in the discount rate.

2021 Changes in Assumptions include:

- An outflow of \$102,421 from the plan due to no retiree contribution increase.
- An outflow of \$19,193 due to a decrease in the interest rate from 2.75% to 2.23%.

¹⁵ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

Pension Benefits (Financial Statement Note 11):

**Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years¹⁶
(Dollar amounts in thousands)**

| As of the measurement date June 30 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|----------|----------|----------|----------|----------|----------|----------|
| Proportionate share of net pension liability (NPL) as a percentage | 0.10 % | 0.10 % | 0.12 % | 0.12 % | 0.12 % | 0.09 % | 0.10 % |
| Board proportionate share of NPL | \$ 1,203 | \$ 1,452 | \$ 2,047 | \$ 2,279 | \$ 1,836 | \$ 1,871 | \$ 2,554 |
| State of Montana share of NPL associated with the Board | 0.00 | 0.00 | 0.00 | 0.00 | 590.00 | 586.00 | 774.00 |
| Total Board Share NPL | \$ 1,203 | \$ 1,452 | \$ 2,047 | \$ 2,279 | \$ 2,426 | \$ 2,457 | \$ 3,328 |
| Pensionable payroll | \$ 1,079 | \$ 1,208 | \$ 1,422 | \$ 1,434 | \$ 1,431 | \$ 1,460 | \$ 1,606 |
| Proportionate share of the NPL as a percentage of its pensionable payroll | 111.44 % | 120.20 % | 143.92 % | 158.88 % | 169.08 % | 128.12 % | 159.05 % |
| Plan fiduciary net position as a percentage of total pension liability | 79.90 % | 78.40 % | 74.71 % | 73.75 % | 73.47 % | 73.85 % | 68.90 % |

¹⁶ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

**Schedule of Contributions
For the Last Ten Fiscal Years¹⁷
(Dollar amounts in thousands)**

| As of June 30, | Contractually required contributions | Contributions made | Contribution deficiency (excess) | Share pensionable payroll | Contributions as a percentage of pensionable payroll |
|----------------|--|-----------------------|--|---------------------------------|---|
| 2014 | \$ 89 | \$ 89 | \$ — | \$ 1,079 | 8.80 % |
| 2015 | \$ 106 | \$ 106 | \$ — | \$ 1,208 | 8.76 % |
| 2016 | \$ 272 | \$ 272 | \$ — | \$ 1,422 | 19.04 % |
| 2017 | \$ 123 | \$ 123 | \$ — | \$ 1,434 | 8.58 % |
| 2018 | \$ 125 | \$ 125 | \$ — | \$ 1,431 | 8.74 % |
| 2019 | \$ 131 | \$ 131 | \$ — | \$ 1,460 | 9.00 % |
| 2020 | \$ 162 | \$ 162 | \$ — | \$ 1,606 | 10.09 % |

Factors that significantly affect trends in the amounts reported for Pension Liabilities:

Changes in benefit Terms

The following changes to the plan provision were made as identified:

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts

- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

- Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

- PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus

¹⁷ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

Changes in Actuarial Assumptions and Methods

- Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2019 actuarial valuation:

| | |
|-------------------------------|--|
| General Wage Growth * | 3.50% |
| Investment Rate of Return * | 7.65% |
| * Includes inflation at | 2.75% |
| Merit salary increase | 0% to 8.47% |
| Asset Valuation method | Four-year smoothed market |
| Actuarial cost method | Entry age Normal |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| Mortality (Healthy members) | For Males and Females: RB 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |
| Mortality (Disabled members) | For Males and Females: RP 2000 Combined Mortality Table, with no projections |
| Admin Expense as % of Payroll | 0.30% |

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

MONTANA BOARD OF HOUSING
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COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2021

| | Single Family Indenture I | Single Family Indenture II | Single Family Indenture XI | Single Family Program Totals | Multifamily Program Fund |
|---|------------------------------|-------------------------------|-------------------------------|---------------------------------|-----------------------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 65,591,433 | \$ 27,509,546 | \$ 2,640,917 | \$ 95,741,896 | \$ 8,279,077 |
| Investments | 7,530,812 | 9,177,550 | — | 16,708,362 | — |
| Mortgage Loans Receivable, Net | 9,987,028 | 6,660,733 | 269,336 | 16,917,097 | 218,723 |
| Corporate Advance Receivable | 22,335 | (51) | — | 22,284 | — |
| Interest Receivable | 1,571,358 | 1,016,517 | 214,170 | 2,802,045 | 44,515 |
| Prepaid Expense | 51,849 | 51,849 | — | 103,698 | 1,791 |
| Total Current Assets | 84,754,815 | 44,416,144 | 3,124,423 | 132,295,382 | 8,544,106 |
| Non-current Assets | | | | | |
| Investments | 8,134,704 | 7,466,378 | 10,850,732 | 26,451,814 | 3,554,520 |
| Mortgage Loans Receivable, Net | 304,560,114 | 146,798,418 | 17,495,232 | 468,853,764 | 5,579,532 |
| Mortgage Backed Securities | — | 437,032 | — | 437,032 | — |
| Acquisition Costs | — | — | — | — | — |
| Capital Assets, Net | 1,950 | 1,753 | — | 3,703 | 856 |
| Total Non-current Assets | 312,696,768 | 154,703,581 | 28,345,964 | 495,746,313 | 9,134,908 |
| Total Assets | 397,451,583 | 199,119,725 | 31,470,387 | 628,041,695 | 17,679,014 |
| Deferred Outflow of Resources | | | | | |
| Deferred Refunding Costs | 98,159 | 35,499 | 17,573 | 151,231 | — |
| Deferred OPEB Outflow | 54,527 | 54,527 | — | 109,054 | 17,140 |
| Deferred Pension Outflow | 149,996 | 149,996 | — | 299,992 | 13,913 |
| Total Deferred Outflows | 302,682 | 240,022 | 17,573 | 560,277 | 31,053 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | 160,313 | 135,152 | 8,061 | 303,526 | 18,452 |
| Funds Held For Others | 503 | — | — | 503 | 1,176,142 |
| Accrued Interest - Bonds Payable | 787,235 | 425,795 | 47,642 | 1,260,672 | 106,093 |
| Bonds Payable, Net | 9,925,000 | 5,405,000 | 1,365,000 | 16,695,000 | 125,000 |
| Arbitrage Rebate Payable to U.S. Treasury Department | — | — | 521,085 | 521,085 | — |
| Accrued Compensated Absences | 19,974 | 19,974 | — | 39,948 | 4,053 |
| Leases Payable - Current | 1,255 | 1,255 | — | 2,510 | 418 |
| Total Current Liabilities | 10,894,280 | 5,987,176 | 1,941,788 | 18,823,244 | 1,430,158 |
| Non-current Liabilities | | | | | |
| Bonds Payable, Net | 321,294,070 | 134,801,951 | 16,895,897 | 472,991,918 | 4,150,706 |
| Arbitrage Rebate Payable to U.S. Treasury Department | 215,297 | 24,232 | — | 239,529 | — |
| Accrued Compensated Absences | 62,848 | 62,849 | — | 125,697 | 9,664 |
| Net Pension Liability | 637,546 | 637,546 | — | 1,275,092 | 58,825 |
| OPEB Liability | 68,529 | 68,530 | — | 137,059 | 18,399 |
| Leases Payable | 423 | 423 | — | 846 | 141 |
| Total Non-current Liabilities | 322,278,713 | 135,595,531 | 16,895,897 | 474,770,141 | 4,237,735 |
| Total Liabilities | 333,172,993 | 141,582,707 | 18,837,685 | 493,593,385 | 5,667,893 |
| Deferred Inflow of Resources | | | | | |
| Deferred OPEB Inflow | 3,467 | 3,467 | — | 6,934 | 1,156 |
| Deferred Pension Inflow | 79,552 | 79,552 | — | 159,104 | (12,663) |
| Total Deferred Inflows | 83,019 | 83,019 | — | 166,038 | (11,507) |
| Net Position | | | | | |
| Net Investment in Capital Assets Restricted for Bondholders: | 272 | 75 | — | 347 | 297 |
| Unrealized (losses) gains on Investments | 1,439,132 | 1,446,777 | 2,472,549 | 5,358,458 | (2,450) |
| Single Family Programs | 58,399,879 | 54,691,138 | 10,177,726 | 123,268,743 | — |
| Various Recycled Mortgage Setaside Programs | 1,556,031 | 1,556,031 | — | 3,112,062 | — |
| Multifamily Programs | — | — | — | — | 11,930,067 |
| Multifamily Project Commitments | — | — | — | — | 125,767 |
| Reverse Annuity Program | 3,102,939 | — | — | 3,102,939 | — |
| Restricted for Affordable Housing Loan Program | — | — | — | — | — |
| Total Net Position | \$ 64,498,253 | \$ 57,694,021 | \$ 12,650,275 | \$ 134,842,549 | \$ 12,053,681 |

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2021

| (continued) | Mortgage Loan Servicing | Housing Trust Fund | Housing Montana Fund | TOTAL |
|--|----------------------------|-----------------------|-------------------------|-----------------------|
| Assets | | | | |
| Cash and Cash Equivalents | \$ 8,437,981 | \$ 2,263,139 | \$ 1,205,778 | \$ 115,927,871 |
| Investments | — | — | — | 16,708,362 |
| Mortgage Loans Receivable, Net | 1,145,460 | — | 25,258 | 18,306,538 |
| Corporate Advance Receivable | 903,689 | — | — | 925,973 |
| Interest Receivable | 188,821 | 1,252,991 | 172,014 | 4,460,386 |
| Prepaid Expense | 24,776 | 34,952 | — | 165,217 |
| Total Current Assets | 10,700,727 | 3,551,082 | 1,403,050 | 156,494,347 |
| Non-current Assets | | | | |
| Investments | — | — | — | 30,006,334 |
| Mortgage Loans Receivable, Net | 78,849 | 2,696,491 | 2,109,563 | 479,318,199 |
| Mortgage Backed Securities | — | — | — | 437,032 |
| Acquisition Costs | 1,237,840 | — | — | 1,237,840 |
| Capital Assets, Net | 3,371 | 3,048 | — | 10,978 |
| Total Non-current Assets | 1,320,060 | 2,699,539 | 2,109,563 | 511,010,383 |
| Total Assets | 12,020,787 | 6,250,621 | 3,512,613 | 667,504,730 |
| Deferred Outflow of Resources | | | | |
| Deferred Refunding Costs | — | — | — | 151,231 |
| Deferred OPEB Outflow | 142,972 | 51,421 | — | 320,587 |
| Deferred Pension Outflow | 245,802 | 41,740 | — | 601,447 |
| Total Deferred Outflows | 388,774 | 93,161 | — | 1,073,265 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 2,117,076 | 15,386 | 411 | 2,454,851 |
| Funds Held For Others | 5,239,467 | — | — | 6,416,112 |
| Accrued Interest - Bonds Payable | — | — | — | 1,366,765 |
| Bonds Payable, Net | — | — | — | 16,820,000 |
| Arbitrage Rebate Payable to U.S. Treasury Department | — | — | — | 521,085 |
| Accrued Compensated Absences | 54,662 | 14,185 | — | 112,848 |
| Leases Payable - Current | 2,092 | 1,255 | — | 6,275 |
| Total Current Liabilities | 7,413,297 | 30,826 | 411 | 27,697,936 |
| Non-current Liabilities | | | | |
| Bonds Payable, Net | — | — | — | 477,142,624 |
| Arbitrage Rebate Payable to U.S. Treasury Department | — | — | — | 239,529 |
| Accrued Compensated Absences | 76,970 | 37,408 | — | 249,739 |
| Net Pension Liability | 1,043,898 | 176,475 | — | 2,554,290 |
| OPEB Liability | 169,567 | 55,198 | — | 380,223 |
| Leases Payable | 704 | 423 | — | 2,114 |
| Total Non-current Liabilities | 1,291,139 | 269,504 | — | 480,568,519 |
| Total Liabilities | 8,704,436 | 300,330 | 411 | 508,266,455 |
| Deferred Inflow of Resources | | | | |
| Deferred OPEB Inflow | 9,303 | 3,467 | — | 20,860 |
| Deferred Pension Inflow | 74,957 | (37,988) | — | 183,410 |
| Total Deferred Inflows | 84,260 | (34,521) | — | 204,270 |
| Net Position | | | | |
| Net Investment in Capital Assets Restricted for Bondholders: Unrealized (losses) gains on Investments | 575 | 1,370 | — | 2,589 |
| Single Family Programs | 3,620,290 | — | — | 126,889,033 |
| Various Recycled Mortgage Setaside Programs | — | — | — | 3,112,062 |
| Multifamily Programs | — | 856,793 | — | 12,786,860 |
| Multifamily Project Commitments | — | — | — | 125,767 |
| Reverse Annuity Program | — | 5,219,810 | — | 8,322,749 |
| Restricted for Affordable Housing Loan Program | — | — | 3,512,202 | 3,512,202 |
| Total Net Position | \$ 3,620,865 | \$ 6,077,973 | \$ 3,512,202 | \$ 160,107,270 |

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

| | Single Family Indenture I | Single Family Indenture II | Single Family Indenture XI | Single Family Program Totals | Multifamily Program Fund |
|---|------------------------------|-------------------------------|-------------------------------|---------------------------------|-----------------------------|
| OPERATING REVENUES | | | | | |
| Interest Income - Mortgage Loans | \$ 10,634,069 | \$ 6,324,621 | \$ 1,406,628 | \$ 18,365,318 | \$ 353,461 |
| Interest Income Investments | 500,686 | 507,667 | 524,990 | 1,533,343 | 2,032 |
| Fee Income | 43,243 | 20,075 | — | 63,318 | 1,053,196 |
| Net Increase (Decrease) in Fair Value of Investments | (498,575) | (571,970) | (635,032) | (1,705,577) | (2,450) |
| Other Income | 18,450 | 11,089 | — | 29,539 | — |
| Total Operating Revenues | <u>10,697,873</u> | <u>6,291,482</u> | <u>1,296,586</u> | <u>18,285,941</u> | <u>1,406,239</u> |
| OPERATING EXPENSES | | | | | |
| Interest on Bonds | 8,343,142 | 5,433,320 | 1,072,792 | 14,849,254 | 258,456 |
| Servicer Fees | 1,119,835 | 632,875 | 110,705 | 1,863,415 | 7,220 |
| Contracted Services | 156,316 | 229,676 | — | 385,992 | 125,312 |
| Amortization of Deferred Refunding | 26,176 | 21,299 | 3,905 | 51,380 | — |
| Bond Issuance Costs | 928,992 | — | — | 928,992 | — |
| General and Administrative | 694,388 | 669,204 | 3,139 | 1,366,731 | 247,399 |
| Arbitrage Rebate Expense | 87,277 | (10,767) | 157,079 | 233,589 | — |
| TANF Spec Project Expense | — | — | — | — | — |
| Pension Expense | 71,442 | 71,442 | — | 142,884 | 23,814 |
| Other Post-Employment Benefits | 4,491 | 4,491 | — | 8,982 | 1,497 |
| Total Operating Expenses | <u>11,432,059</u> | <u>7,051,540</u> | <u>1,347,620</u> | <u>19,831,219</u> | <u>663,698</u> |
| Operating Income (Loss) | <u>(734,186)</u> | <u>(760,058)</u> | <u>(51,034)</u> | <u>(1,545,278)</u> | <u>742,541</u> |
| Nonoperating Revenue (Expenses) | | | | | |
| Pensions - Non-employer | | | | | |
| Contributions | 22,465 | 22,465 | — | 44,930 | 7,488 |
| Non-operating Income (Loss) | 22,465 | 22,465 | — | 44,930 | 7,488 |
| Income (Loss) before transfers | (711,721) | (737,593) | (51,034) | (1,500,348) | 750,029 |
| Transfers From Other Agency | — | — | — | — | — |
| Transfers From (To) Other Fund | (1,167,520) | (972,016) | 1,439,536 | (700,000) | — |
| Total Transfers | (1,167,520) | (972,016) | 1,439,536 | (700,000) | — |
| Increase (Decrease) in Net Position | <u>(1,879,241)</u> | <u>(1,709,609)</u> | <u>1,388,502</u> | <u>(2,200,348)</u> | <u>750,029</u> |
| Net Position, July 1 | 66,377,494 | 59,403,630 | 11,261,773 | 137,042,897 | 11,303,652 |
| Adjustments to Beginning Net Position (Note 18) | — | — | — | — | — |
| Net Position, July 1, as restated | 66,377,494 | 59,403,630 | 11,261,773 | 137,042,897 | 11,303,652 |
| Net Position, End of Year | <u>\$ 64,498,253</u> | <u>\$ 57,694,021</u> | <u>\$ 12,650,275</u> | <u>\$ 134,842,549</u> | <u>\$ 12,053,681</u> |

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

| (continued) | Mortgage Loan Servicing | HOUSING TRUST FUND | HOUSING MONTANA FUND | ELIMINATION ¹⁸ | TOTAL |
|--|----------------------------|-----------------------|----------------------------|---------------------------|-----------------------|
| OPERATING REVENUES | | | | | |
| Interest Income - Mortgage Loans | \$ — | \$ 202,630 | \$ 28,489 | \$ — | \$ 18,949,898 |
| Interest Income Investments | 112 | 2,799 | 375 | — | 1,538,661 |
| Fee Income | 2,856,923 | 820,780 | — | (2,212,465) | 2,581,752 |
| Net Increase (Decrease) | | | | | |
| in Fair Value of Investments | — | — | — | — | (1,708,027) |
| Other Income | — | — | — | — | 29,539 |
| Total Operating Revenues | <u>2,857,035</u> | <u>1,026,209</u> | <u>28,864</u> | <u>(2,212,465)</u> | <u>21,391,823</u> |
| OPERATING EXPENSES | | | | | |
| Interest on Bonds | — | — | — | — | 15,107,710 |
| Servicer Fees | 969,887 | — | 649 | (2,212,465) | 628,706 |
| Contracted Services | 256,848 | 60,760 | (60) | — | 828,852 |
| Amortization of Deferred Refunding | — | — | — | — | 51,380 |
| Bond Issuance Costs | — | — | — | — | 928,992 |
| General and Administrative | 1,533,746 | 705,217 | — | — | 3,853,093 |
| Arbitrage Rebate Expense | — | — | — | — | 233,589 |
| TANF Spec Project Expense | — | — | (238,682) | — | (238,682) |
| Pension Expenses | 164,589 | 71,442 | — | — | 402,729 |
| Other Post-Employment Benefits | 8,187 | 4,491 | — | — | 23,157 |
| Total Operating Expenses | <u>2,933,257</u> | <u>841,910</u> | <u>(238,093)</u> | <u>(2,212,465)</u> | <u>21,819,526</u> |
| Operating Income (Loss) | <u>(76,222)</u> | <u>184,299</u> | <u>266,957</u> | <u>—</u> | <u>(427,703)</u> |
| Nonoperating Revenue (Expenses) | | | | | |
| Pensions - Non-employer | | | | | |
| Contributions | 51,757 | 22,465 | — | — | 126,640 |
| Nonoperating Income (Loss) | 51,757 | 22,465 | — | — | 126,640 |
| Income (Loss) before transfers | (24,465) | 206,764 | 266,957 | — | (301,063) |
| Transfers from Other Agency | | | | | |
| Transfers From (To) Other Fund | 700,000 | — | — | — | — |
| Total Transfers | 700,000 | — | 501,433 | — | 501,433 |
| Increase (Decrease) to Net | | | | | |
| Position | 675,535 | 206,764 | 768,390 | — | 200,370 |
| Net Position, July 1 | 2,945,330 | 5,871,209 | 2,750,360 | — | 159,913,448 |
| Adjustments to Beginning Net | | | | | |
| Position (Note 18) | — | — | (6,548) | — | (6,548) |
| Net Position, July 1, as restated | 2,945,330 | 5,871,209 | 2,743,812 | — | 159,906,900 |
| Net Position, End of Year | <u>\$ 3,620,865</u> | <u>\$ 6,077,973</u> | <u>\$ 3,512,202</u> | <u>\$ —</u> | <u>\$ 160,107,270</u> |

¹⁸ Interfund transactions are eliminated in order to tie to the Statement of Revenues, Expense and Changes in Net Position

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

| | Single Family Indenture I | Single Family Indenture II | Single Family Indenture XI | SINGLE FAMILY PROGRAM FUND TOTALS | MULTIFAMILY PROGRAM FUNDS |
|--|------------------------------|-------------------------------|-------------------------------|---|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Receipts for Sales and Services | \$ 43,243 | \$ 20,075 | \$ — | \$ 63,318 | \$ 1,053,196 |
| Collections (Disbursements) on Loans and Interest on Loans | 63,600,930 | 45,746,570 | 19,552,524 | 128,900,024 | 2,576,897 |
| Collection (Disbursements) for Loan Escrow Accounts | — | — | — | — | (341,438) |
| Cash Payments for Loans | (68,444,318) | — | — | (68,444,318) | — |
| HUD Rental Adjustment Expense | — | — | — | — | — |
| Payments to Suppliers for Goods and Services | (1,480,328) | (1,122,920) | (120,892) | (2,724,140) | (248,518) |
| Payments to Employees | (486,621) | (459,107) | — | (945,728) | (157,661) |
| Corporate (Advances) Repayments | (14,651) | 266 | — | (14,385) | — |
| Other Operating Revenues | 18,450 | 11,089 | — | 29,539 | — |
| Net Cash Provided (Used) | | | | | |
| Operating Activities | (6,763,295) | 44,195,973 | 19,431,632 | 56,864,310 | 2,882,476 |
| CASH FLOWS FROM NON-CAPITAL ACTIVITIES: | | | | | |
| Payment of Principal and Interest on Bonds and Notes | (65,213,541) | (40,126,107) | (22,839,467) | (128,179,115) | (379,714) |
| Proceeds from Issuance of Bonds and Notes | 73,410,000 | — | — | 73,410,000 | — |
| Payment of Bond Issuance Costs | (928,995) | — | — | (928,995) | — |
| Premium Received on Bonds | 2,504,125 | — | — | 2,504,125 | — |
| Transfers From (To) Other Funds | (1,167,519) | (972,016) | 1,439,535 | (700,000) | — |
| Transfers From Other Agencies | — | — | — | — | — |
| Purchase of Mortgage Servicing Rights | — | — | — | — | — |
| Net Cash Provided (Used) by | | | | | |
| Non-capital Financing Activities | 8,604,070 | (41,098,123) | (21,399,932) | (53,893,985) | (379,714) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of Investments | (3,205,000) | (3,592,000) | — | (6,797,000) | (5,460,000) |
| Proceeds from Sales or Maturities of Investments | 1,772,360 | 617,080 | 698,986 | 3,088,426 | 1,905,480 |
| Change in Interest on Investments | 13,269 | (61,348) | (127,722) | (175,801) | (21,137) |
| Arbitrage Rebate Tax | — | — | (593,665) | (593,665) | — |
| Net Cash Provided (Used) by | | | | | |
| Investing Activities | (1,419,371) | (3,036,268) | (22,401) | (4,478,040) | (3,575,657) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 421,404 | 61,582 | (1,990,701) | (1,507,715) | (1,072,895) |
| Cash and Cash Equivalents, July 1 | 65,170,029 | 27,447,964 | 4,631,618 | 97,249,611 | 9,351,972 |
| Cash and Cash Equivalents, June 30 | \$ 65,591,433 | \$ 27,509,546 | \$ 2,640,917 | \$ 95,741,896 | \$ 8,279,077 |

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

| (continued) | MORTGAGE LOAN SERVICING | HOUSING TRUST FUND | HOUSING MONTANA FUND | TOTAL |
|--|-------------------------------|-----------------------|----------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Receipts for Sales and Services | \$ 2,856,922 | \$ 820,780 | \$ — | \$ 4,794,216 |
| Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans | 724,671 | 92,195 | (24,174) | 132,269,613 |
| Collection (Payouts) for Loan Escrow Accounts | (498,563) | — | — | (840,001) |
| Cash Payments for Loans | — | — | — | (68,444,318) |
| HUD Rental Adjustment Expense | — | — | 238,682 | 238,682 |
| Payments to Suppliers for Goods and Services | (1,112,060) | (313,401) | (14,079) | (4,412,198) |
| Payments to Employees | (1,165,495) | (434,161) | — | (2,703,045) |
| Corporate (Advances) Repayments | (697,389) | — | — | (711,774) |
| Other Operating Revenues | — | — | — | 29,539 |
| Net Cash Provided (Used) | | | | |
| Operating Activities | <u>108,086</u> | <u>165,413</u> | <u>200,429</u> | <u>60,220,714</u> |
| CASH FLOWS FROM NON-CAPITAL ACTIVITIES: | | | | |
| Payment of Principal and Interest on Bonds and Notes | — | — | — | (128,558,829) |
| Proceeds from Issuance of Bonds and Notes | — | — | — | 73,410,000 |
| Payment of Bond Issuance Costs | — | — | — | (928,995) |
| Premium Received on Bonds | — | — | — | 2,504,125 |
| Transfers From (To) Other Funds | 700,000 | — | — | — |
| Transfers From Other Agencies | — | — | 501,433 | 501,433 |
| Purchase of Mortgage Servicing Rights | (488,404) | — | — | (488,404) |
| Net Cash Provided (Used) by non-capital Financing Activities | <u>211,596</u> | <u>—</u> | <u>501,433</u> | <u>(53,560,670)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchase of Investments | — | — | — | (12,257,000) |
| Proceeds from Sales or Maturities of Investments | — | — | — | 4,993,906 |
| Interest on Investments | 139 | 3,100 | 405 | (193,294) |
| Arbitrage Rebate Tax | — | — | — | (593,665) |
| Net Cash Provided (Used) by Investing Activities | <u>139</u> | <u>3,100</u> | <u>405</u> | <u>(8,050,053)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 319,821 | 168,513 | 702,267 | (1,390,009) |
| Cash and Cash Equivalents, July 1 | 8,118,160 | 2,094,626 | 503,511 | 117,317,880 |
| Cash and Cash Equivalents, June 30 | <u>\$ 8,437,981</u> | <u>\$ 2,263,139</u> | <u>\$ 1,205,778</u> | <u>\$ 115,927,871</u> |

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | Single Family Indenture I | Single Family Indenture II | Single Family Indenture XI | SINGLE FAMILY PROGRAM FUND TOTALS | MULTI FAMILY PROGRAM FUNDS |
|-------------------------|------------------------------|-------------------------------|-------------------------------|--|----------------------------------|
| Operating Income (Loss) | \$ (734,186) | \$ (760,058) | \$ (51,034) | \$ (1,545,278) | \$ 742,541 |

ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES

| | | | | | |
|-----------------------------------|----------------|---------------|---------------|---------------|--------------|
| Depreciation | 1,922 | 1,922 | — | 3,844 | 191 |
| Amortization | (576,758) | (477,659) | (88,965) | (1,143,382) | 21,418 |
| Interest Expense | 9,916,932 | 5,954,413 | 1,183,592 | 17,054,937 | 256,818 |
| Interest on Investments | (542,552) | (529,805) | (542,918) | (1,615,275) | (21,812) |
| Arbitrage Rebate Tax | 87,277 | (10,767) | 157,079 | 233,589 | — |
| Change in Assets and Liabilities: | | | | | |
| Decr (Incr) Mortgage Loans | | | | | |
| Receivable | (14,994,783) | 39,561,175 | 18,056,880 | 42,623,272 | 2,214,422 |
| Decr (Incr) Other Assets | (592,303) | (184,688) | 82,784 | (694,207) | (54,253) |
| Decr (Incr) Fair Value of | | | | | |
| Investments | 486,110 | 571,970 | 635,032 | 1,693,112 | 2,450 |
| Incr (Decr) Accounts Payable | 3,883 | (111,693) | (818) | (108,628) | 958 |
| Incr (Decr) Funds Held for | | | | | |
| Others | — | — | — | — | (342,120) |
| Incr (Decr) Pensions Payable | 139,090 | 139,090 | — | 278,180 | 45,347 |
| Incr (Decr) Compensated | | | | | |
| Absences Payable | (9,946) | (9,946) | — | (19,892) | (824) |
| Incr (Decr) Other | | | | | |
| Post Employment Benefits | 53,255 | 53,255 | — | 106,510 | 17,752 |
| Increase (Decr) Leases Payable | (1,236) | (1,236) | — | (2,472) | (412) |
| Operating Activities | \$ (6,763,295) | \$ 44,195,973 | \$ 19,431,632 | \$ 56,864,310 | \$ 2,882,476 |

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

| (continued) | MORTGAGE LOAN SERVICING | HOUSING TRUST FUND | HOUSING MONTANA FUND | FEDERAL PROGRAMS | TOTAL |
|--|----------------------------|-----------------------|----------------------------|---------------------|---------------|
| Operating Income (Loss) | \$ (76,222) | \$ 184,299 | \$ 266,957 | \$ — | \$ (427,703) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES | | | | | |
| Depreciation | 2,160 | 287 | — | — | 6,482 |
| Amortization on Bonds | — | — | — | — | (1,121,964) |
| Interest Expense | — | — | — | — | 17,311,755 |
| Interest on Investments | (112) | — | (375) | — | (1,637,574) |
| Arbitrage Rebate Tax | — | — | — | — | 233,589 |
| Change in Assets and Liabilities: | | | | | |
| Decr (Incr) Mortgage Loans | | | | | |
| Receivable | 1,613,548 | (140,980) | (46,841) | — | 46,263,421 |
| Decr (Incr) Other Assets | (832,250) | (77,742) | (5,764) | — | (1,664,216) |
| Decr (Incr) Fair Value of | | | | | |
| Investments | — | — | — | — | 1,695,562 |
| Incr (Decr) Accounts Payable | (521,562) | 1,214 | (13,548) | — | (641,566) |
| Incr (Decr) Funds Held for | | | | | |
| Others | (448,110) | — | — | — | (790,230) |
| Incr (Decr) Pensions Payable | 219,832 | 139,090 | — | — | 682,449 |
| Incr (Decr) Compensated | | | | | |
| Absences Payable | 14,293 | 7,226 | — | — | 803 |
| Incr (Decr) Other | | | | | |
| Post Employment Benefits | 138,569 | 53,255 | — | — | 316,086 |
| Increase (Decr) Leases Payable | (2,060) | (1,236) | — | — | (6,180) |
| Operating Activities | \$ 108,086 | \$ 165,413 | \$ 200,429 | \$ — | \$ 60,220,714 |

Noncash Investing, capital, and financing activities: During FY21, the Board investments decreased in fair value by \$1,708,027. The fair value increase was not realized in cash during the FY21.

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