THE MARYLAND HOUSING FUND
ANNUAL REPORT: FISCAL YEAR 2009

A Report to the Maryland General Assembly

November, 2009

Maryland Department of Housing and Community Development
100 Community Place
Crownsville, Maryland 21032-2023
(410) 514-7325
1- 800-756-0119, ext. 7325

http://www.mdhousing.org

Martin O'Malley, Governor
Anthony G. Brown, Lieutenant Governor
Raymond A. Skinner, Secretary
Clarence J. Snuggs, Deputy Secretary

EQUAL HOUSING OPPORTUNITY *The Maryland Department of Housing and Community Development (DHCD) pledges to foster the letter and spirit of the law for achieving equal housing opportunity in Maryland.*

Table of Contents

EXECUTIVE SUMMARY

The Maryland Department of Housing and Community Development (Department), pursuant to its statutory requirements, is pleased to present the Maryland Housing Fund Fiscal Year 2009 Annual Report to the Maryland General Assembly. Additional information about the operations of the Maryland Housing Fund (MHF) for fiscal years 2009 and 2008 is also included.

MHF is a program within the Division of Credit Assurance, an operating division of the Department. It is the oldest, and one of the largest, state-sponsored mortgage insurance funds in the United States. However, it is the only one of its peer programs to be operated within a line cabinet agency of state government. MHF provides mortgage insurance primarily for the Community Development Administration's (Administration) tax exempt revenue bond mortgages. The Administration is a division within the Department that issues revenue bonds to raise capital used to make below market interest rate mortgages. The Administration's revenue bonds are typically rated by two credit rating agencies. The rating agencies continue to affirm the Administration's "Double A" bond rating; and the Administration continues to be an active issuer of mortgage revenue bonds.

Home prices in Maryland have decreased over the last year. The demand for housing in Maryland has declined in a slowing market; and properties remain on the market for longer periods. However, it is estimated U.S. Base Realignment and Closure (BRAC) activities will add between 45,000 and 60,000 new jobs over the next several years, which will increase demand for housing in several jurisdictions. MHF's portfolio is not affected by sub prime lending and the resulting foreclosures.

MHF was open for business during the first 5 months of fiscal year 2009. During this time other private mortgage insurers ceased insuring 100% loan to value (LTV) single family loans. Unlike most other states, Maryland was able to assist its first time homebuyers using MHF. The demand was so great that in November 2008, MHF had to suspend insuring new single family loans due to the limited capacity of its reserves. MHF's audited financial statements for fiscal year 2009 reflects a $2.8 million operating loss, due to an increase in the provision for insurance losses on the single family loan portfolio, compared to FY 2008, which had net income of $2.8 million. The increased allowance is due to the $90m in new loan insurance. MHF did continue to hold pace or exceed performance in the general marketplace, in spite of to pervasive economic tensions. Strong Single Family asset management, including proactive education and early loss mitigation intervention continued to result in minimal foreclosures and limited losses to MHF. Proactive Multi-Family asset management, including physical inspections and adequate reserves for capital repairs/improvements, continued to yield high occupancy in MHF-insured affordable rental housing properties. Fiscal year 2009 is the sixth straight year MHF reported no Multi-Family insured loans in financial or physical default.

The audited financial statements for fiscal year 2009 and 2008 are attached as appendices to this report. MHF reports its financial condition on a consolidated basis, combining operational results for Multi-Family, Single Family, Revitalization, Home and Energy and General Reserve mortgage insurance programs. Insurance claims are payable only from each program's respective reserves, MHF operating funds, and Unallocated Reserves. Other funds, assets, or reserves of MHF that may be described in the financial statements, as well as the general financial resources of the Administration, the Department or the State of Maryland, are not available to pay claims resulting from the insurance obligations of MHF. As of June 30, 2009, MHF had primary insurance commitments on mortgages for approximately $201 million and $99 million, respectively, under its Single Family and Multi-Family insurance programs. In addition to the primary insurance, MHF had $20.5 million in outstanding Single Family pool insurance coverage.

MHF's insurance obligations extend only to the mortgages it insures and not to the underlying bond obligations of the Administration or other issuers. The Department is required to file official statements and other reports with the Electronic Municipal Market Access (EMMA), formerly the Nationally Recognized Municipal Securities Information Repository (NRMSIR) pursuant to undertakings to comply with Rule 15c2-12 of the Securities and Exchanges Commission. Potential purchasers or sellers of the Administration's bonds should refer to such information with this report (including more recent information about MHF).

For additional information on the operations of MHF, please contact:

George Eaton, Director
Maryland Housing Fund
Maryland Department of Housing and
Community Development
100 Community Place
Crownsville, Maryland 21032-2023
(410) 514 - 7348
eaton@mdhousing.org

1.0 THE MHF INSURANCE PROGRAM

The following describes the mortgage insurance programs administered by the MHF pursuant to Section 3-201 through 3-208 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the “MHF Statute”), and is qualified in its entirety by reference to such statute and the regulations thereunder (the “MHF Regulations”).

MHF was created in 1971 as a special insurance fund of the State of Maryland and is an agency in the Division of Credit Assurance of the Department (the “Division”). MHF is authorized to insure mortgage loans, including mortgage loans for multi-family developments financed by public agencies such as the Administration (“Multi-Family loans”) and to provide primary and pool insurance for single family mortgage loans (“Single Family loans”). MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss.

In early 1997, the Department suspended all new insurance activity of MHF (except for pool insurance for certain Single Family loans), partly as a result of concerns expressed by Moody’s Investor Services (“Moody’s”) during the 1996 and 1997 rating review. The Department responded to the concerns and took appropriate steps. Since that time, MHF has opened new programs.

In 2002, the Department re-opened a limited program of MHF insuring mortgage loans known as “SHOP” (Special Housing Opportunities Program) that finance or refinance the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations. Moody’s advised the Administration that such a re-opened program, implemented in the limited manner proposed by the Administration, would not affect the Moody’s rating on the Administration’s Bonds.

The Administration has been designated as a participant in the federal Housing and Urban Development’s (“HUD”) Risk-Sharing Program (the “Risk-Sharing Program”) for Multi-Family loans. Under the Risk-Sharing Program, upon payment of a claim by the Federal Housing Authority (“FHA”), the Administration would be responsible for reimbursement to FHA of up to 50% of such claim. The Administration expects that MHF would reimburse the Administration for its share of such losses. Subsequent to 1997, the Administration participated in the Risk-Sharing Program only in connection with the refinancing of loans currently insured by MHF where the Administration expected that risk-sharing will decrease the dollar amount of MHF’s insurance exposure with respect to such loans. In 2004, the Department expanded its MHF insurance program to authorize MHF insurance on a case-by-case basis for new loans financed by Bonds, including loans with credit enhancement under the Risk-Sharing Program. Moody’s advised the Administration that such a re-opened program, implemented in the limited manner proposed by the Administration, would not affect Moody’s rating on the Administration’s Bonds.

In June, 2005, the Department opened a program of MHF to insure 30-year and 40-year amortizing Single Family loans being purchased by the Administration. Due to current market conditions causing unexpected high demand for this insurance, the Department is suspending the program temporarily as of November 10, 2008.

In June, 2006 the Department authorized the expenditure of up to $1 million of the Revitalization Reserve to provide credit enhancement to a loan program that is sponsored by a nonprofit corporation, which is intended to stabilize and strengthen property values in targeted areas of the City of Baltimore.

In 2008, MHF opened a limited Bridge Loan Program for Multi-Family projects. This program provides short-term financing for part of the development costs for rental housing projects awarded federal low-income housing tax credits. This program works in conjunction with the FHA Risk Sharing Program.

In 2008, MHF committed $10 million of the Unallocated Reserve to provide credit enhancement for certain single family refinancing loans made by private lenders under the Department's Home Owners' Preserving Equity ("HOPE") initiative. The General Reserve was officially established by regulation in November 2008 to insure a broad range of programs, including the HOPE initiative. Once the General Reserve was established, MHF transferred $10 million of the Unallocated Reserve to the General Reserve on November 3, 2008 to insure loans under the HOPE initiative and other Department programs.

For fiscal year 2003, the Maryland Department of Legislative Services asked MHF and the Administration whether there were funds available for transfer to the State. After being advised by Moody's that a transfer, in and of itself, would not have an adverse effect on the rating of the Administration's outstanding parity debt, including the Bonds, MHF transferred $10 million from the Unallocated Reserve to the State. There was no transfer in 2004, 2005, 2006 or 2007. In June of 2008, in response to another request from the Maryland Department of Legislative Services, $10 million was transferred from MHF's Unallocated Reserve to certain revolving funds that provide financing for homeownership and rental housing programs of the Department. In addition, legislation has been enacted requiring, beginning in fiscal year 2010, that any amount in the Unallocated Reserve at the end of any fiscal year that exceeds an amount necessary to provide backing for insurance issued by MHF by more than $10 million, be transferred to certain revolving funds that provide financing for homeownership and rental housing programs of the Department. The Administration has been advised by Moody's and Fitch that the transfers will not have an adverse effect on the rating of the Administration's outstanding parity debt, including the Bonds. For more information, see "MANAGEMENT'S PRESENTATION OF THE MHF PROGRAM" below.

2.0 MANAGEMENT'S PRESENTATION OF THE MHF PROGRAM

The following information is management's presentation of the MHF Program.

2.1 Financial Statements and Information

Audited financial statements of MHF for the years ended June 30, 2008 and June 30, 2009 are included in the appendix to this report "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND." The financial statements for the fiscal years ended June 30, 2008 and June 30, 2009 have been audited by Reznick Group, P.C. As indicated in the report of the auditors, such financial statements have been prepared in conformity with accounting principles and the audits conducted in accordance with auditing standards generally accepted in the United States. The financial statements of MHF are reported on a consolidated basis combining results of operations for MHF's Multi-Family, Single Family Regular, Revitalization, Home and Energy and General Mortgage Insurance Programs.

2.2 Operating Income and Reserves

MHF's operating income from insurance premiums is used to pay operating expenses and also may be used to pay insurance claims.

MHF maintains six insurance reserves, which are separate from MHF's operating funds. Five of the reserves cover specific categories of insurance: the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization Reserve, the Home and Energy Loan Reserve and the General Reserve. The investment earnings on each of the five specific reserves are credited to a sixth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of insurance or may be transferred into any other reserve, or may be restricted for claims under a particular category. The Unallocated Reserve is available for any category of claims or for any other purpose consistent with contractual obligations with the Administration's bondholders.

The MHF Statute provides that any moneys of MHF that the Department creates as an identifiable insurance reserve may be used only in conformance with the terms and conditions creating that reserve. MHF Regulations provide that each reserve is maintained to pay claims arising from its respective category of insurance and may not be subject to claims arising from other categories of insurance (except for the Unallocated Reserve). The reserves are held by the Office of the Treasurer of the State, which credits MHF with income on investment of reserves for the benefit of MHF.

MHF does not insure the Bonds, and the assets of MHF are not available to the Administration or the Trustee to satisfy obligations to holders of the Bonds. The obligation of MHF is limited to the payment of mortgage insurance claims as described herein. An insurance claim against MHF is payable from and limited to the applicable MHF reserve and does not constitute a general obligation of MHF, the Department, or the State.

2.3 Statements of Net Assets Discussion

During the fiscal year ended June 30, 2008, the overall equity decreased from $104,785,028 at the close of June 30, 2007 to $97,613,672 at June 30, 2008. The decrease of $7,171,356 is primarily due to the legislative mandate to transfer $10 million to DHCD's Homeownership, Rental Housing and the Special Loan programs. During the fiscal year ended June 30, 2009, the overall equity decreased from $97,613,672 at June 30, 2008 to $94,772,733 at June 30, 2009. The decrease of $2,840,939 is primarily due to an increase in allowances for unpaid insurance losses due to new loan activity.

The Unrestricted Accumulated Deficit is a part of the overall equity. The Unrestricted Accumulated Deficit - which decreases when claims are paid from the insurance reserves - represents the cumulative net income (loss) of MHF since its inception less any investment income earned on the insurance reserves. When MHF's insurance reserves are greater than its net assets, there will be an accumulated deficit in the net assets section of the MHF Statement of Net Assets.

During the fiscal year ended June 30, 2008, the Unrestricted Accumulated Deficit increased by an additional $2,642,703 to a deficit of $5,717,921 at the close of June 30, 2008. The $2,642,703 was a net loss of income from operating activities (income net of interest earned on investments held by the State Treasurer). During the fiscal year ended June 30, 2009, the Unrestricted Accumulated Deficit increased from $5,717,921 to a deficit of $12,154,628. This was due to a $6,436,707 net loss of income from operating activities (income net of interest earned on investments held by the State Treasurer).

2.4 Discussion of Changes in Net Assets

During the fiscal year ended June 30, 2008, MHF reported a Change in Net Assets of $2,828,644. The change is the net of investment earnings and an increase in the allowance for insurance loss based on new Single Family loan activity. Investment earnings for the fiscal year ended June 30, 2008 in the amount of $5,471,347 flowed directly to the Unallocated Reserves.

During the fiscal year ended June 30, 2009, MHF reported a Change in Net Assets of ($2,840,939). The change is the net of investment earnings and an increase in the allowance for insurance losses based on new Single Family loan activity. Investment earnings for the fiscal year ended June 30, 2009 in the amount of $3,595,768 flowed directly to the Unallocated Reserves.

As described below in "Single Family Information – Certain Additional Expected Single Family Claims" and "Multi-Family Information – Certain Additional Expected Multi-Family Claims," the

Administration has notified MHF of defaults under insured mortgages that were expected to result in additional claims to MHF. Payment of these claims is not reflected in MHF's Statement of Net Assets; however, MHF included provisions for these claims in its allowance for unpaid insurance losses.

3.0 DISCUSSION OF OPERATING CASH ACCOUNT

3.1 Selected Activity in MHF's Operating Cash Account

The following table is management's presentation of activity in MHF's operating cash account as of June 30, 2009.

	Single Family	Multi-Family	Total
Premiums Collected [(1)]	$2,639,488	$728,828	$3,368,316
Operating Expenses Paid [(2)]	(1,142,702)	(1,654,702)	(2,797,404)
Premiums Net of Operating Expenses	1,496,786	(925,874)	570,912
Claims [(3)]	(164,324)	(16,760)	(181,084)
Recoveries [(4)]	84,337	156,134	240,471
Net Claim Activity	(79,987)	139,374	59,387
Other [(5)]	36,651	43,691	80,342
Net Cash from Operating Activities	$1,453,450	($742,809)	$710,641

(1) Premiums collected as stated in the Statements of Cash Flows.
(2) Operating expenses include salaries and benefits, general and administrative and intradepartmental expenses.
(3) Includes principal, interest and supplemental expenses incurred on claims and carrying costs on acquired properties.
(4) Includes proceeds collected on the sale of loans or acquired properties.
(5) Includes changes in other assets and liabilities such as mortgage receivables, notes payables and escrows.

During the fiscal year ended June 30, 2008, MHF's net operating cash activity was ($95,685) for Single Family and ($526,874) for Multi-Family. The change in Single Family and Multi-Family was primarily due to a decrease in recoveries and claims paid, respectively. During the fiscal year ended June 30, 2009, the net cash activity in MHF's operating cash was $1,453,450 for Single Family and ($742,809) for Multi-Family. The change in Single Family is due to an increase in premiums for new business and the change in Multi-Family is due to operating expenses exceeding premiums collected.

3.2 Liquidity

MHF's primary uses of funds are to pay its operating expenses (direct and indirect) and to satisfy Multi-Family and Single Family claims under its insurance policies resulting from a loan default (payment or physical) by an insured borrower. In general, MHF's insurance policies require MHF to pay claims to the lender, which includes the total principal outstanding, interest in arrears (through foreclosure), and other expenses associated with a failed real estate loan (e.g., foreclosure costs, negative escrows, etc.). MHF generally acquires a loan or property with the payment of the claim. The proceeds of the sale of this asset are deducted from the original claim to derive the net loss (or net gain) associated with the defaulted loan claim.

In addition to the proceeds from the sale of assets acquired through the payment of claims, MHF's primary revenue sources result from mortgage insurance premiums paid by the borrowers and the investment earnings on insurance reserves. These assets, together with the corpus of the reserves held by MHF, are available to pay insurance claims and related expenses. The available reserves are leveraged against insurance commitments outstanding. Calculations for the leverage ratios are shown in “Discussion of Leverage Ratios” below.

To manage MHF’s resources effectively from both a business and liquidity sense, the management of MHF has developed several claim paying strategies. For Multi-Family defaulted loans, MHF may pay a debt service claim after a borrower has missed a total of six monthly payments. These claim payments represent any unpaid principal and interest due from the regular scheduled payment. While making these monthly payments, MHF, working with the Administration, attempts to workout the loan in order to minimize its loss. When the final workout of the loan is completed, MHF either pays a partial claim or pays the full claim. A workout may be accomplished through (a) refinancing of the loan after re-underwriting the debt to enable the project to meet debt service from net operating income or (b) payment of claims and resale of the asset to minimize the total size of the claim.

For Single Family defaulted loans, MHF generally requires the lender to foreclose on the loan and secure the property before it pays the claim. This affords MHF the ability to begin marketing the property for re-sale at the same time it has paid out the cash. MHF attempts to resell Single Family properties in a manner that provides for recoveries as soon as possible while minimizing holding costs. While MHF strives to sell its Real Estate Owned (REO) to homebuyers, its desire to conduct quick turn around sales does necessitate the selling of a significant portion of the REO to investors and non-profit organizations. Selling to investors generally increases the overall net loss on the claim to MHF.

3.3 Discussion of Leverage Ratios

For loans made before 2005, MHF operates its Single Family insurance in accordance with an insurance agreement dated as of May 14, 1980, with the Administration (the “Single Family Insurance Agreement”). For loans financed after June 20, 2005 under the Administration’s Residential Revenue Bond Resolution (the “Resolution”), MHF operates its Single Family insurance in accordance with an insurance agreement dated as of June 20, 2005 with the Administration (the “2005 Single Family Insurance Agreement”). Claims under the Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement may be paid from the Single Family Program Reserve.

MHF operates its Multi-Family insurance in accordance with, an amended and restated insurance agreement dated February 12, 2006, with the Administration (the “Insurance Agreement”).

Under the Insurance Agreement, MHF has contracted with the Administration that, except as necessary to pay claims or advances on claims, MHF will not permit the ratio of Multi-Family insurance to assets in the Multi-Family Reserve (as may be reduced as described below) to exceed 10 to 1, and that no new insurance payable from the Multi-Family Reserve shall be issued or committed to if upon such issuance or commitment and subsequent issuance the ratio would exceed 10 to 1. (Under the terms of the Insurance Agreement, loans insured by MHF that are reinsured without contingent liability on the part of MHF are not taken into account in determining MHF’s compliance with the maximum 10 to 1 ratio of amounts insured to assets in the Multi-Family Reserve.)

Under the Single Family Insurance Agreement, MHF has contracted with the Administration that, except as necessary to pay claims or advances on claims, MHF will not permit the ratio of the aggregate dollar amount of the Single Family insurance to assets in the Single Family Reserve (as may be reduced as described below) to exceed 25 to 1 and the ratio of the aggregate dollar amount of the Single Family pool insurance to assets in the Single Family Reserve (as may be reduced as described above) to exceed 7 to 1, and that no new insurance payable from the Single Family Reserve shall be issued or committed to if, upon such issuance or commitment and subsequent issuance, either ratio would be exceeded.

Under the 2005 Single Family Insurance Agreement, MHF will not permit the ratio of the aggregate dollar amount of the Single Family insurance to assets in the Single Family Reserve (as may be reduced as described below) to exceed 25 to 1 as specified in the Single Family Insurance Agreement, and no new insurance payable from the Single Family Reserve shall be issued or committed to if upon such issuance or commitment and subsequent issuance either ratio would be exceeded. There is no pool insurance coverage for loans insured under the 2005 Single Family Insurance Agreement.

3.4 Selected Information about the Single Family Regular Reserve Ratios

	06/30/07	06/30/08	06/30/09
Single Family Regular Program Reserve [(1)(2)]	$ 32,273,875	$ 33,773,875	$ 33,773,875
Amount Available for Calculation of "Ratio of Insurance to Available Reserve"[(3)]	32,273,875	33,773,875	33,773,875
Primary Insurance coverage in force [(4)]			
Insurance Agreement prior to 2005	28,490,181	23,590,846	20,358,763
Insurance Agreement post 2005	1,079,731	4,568,582	30,823,566
Pool Insurance coverage in force [(5)]	20,500,000	20,500,000	20,500,000
Ratio of Mortgage Loans to the Regular Reserve [(6)]	1.55 to 1	1.44 to 1	2.12 to 1

(1) The Single Family Regular Program Reserve does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve. As of June 30, 2009, MHF had committed no additional primary insurance coverage.

(2) Fund balances for MHF reserves are calculated in the same manner as in the financial statements of MHF and include investment income earned and allocated by the Secretary to the Single Family Regular Program Reserve. At 6/30/08, the Secretary determined that $1.5 million of interest earned during fiscal year 2008 on the Single Family Reserves be allocated from the Unallocated Reserve to the Single Family Reserve.

(3) In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate.

(4) The primary insurance coverage is 25% of the allowable claim for loans insured prior to 2005 under the Single Family Insurance Agreement ($81,435,051 at 06/30/2009). The primary insurance coverage is 35% of the allowable claim for loans insured under the 2005 Single Family Insurance Agreement ($88,067,331 at 06/30/2009).

(5) This coverage represents the 10% stop-loss on pool insurance for loans financed under the Single Family Regular Program Bond General Certificate (prior to 1997). Wisconsin Mortgage Assurance Corporation, formerly Mortgage Guaranty Insurance Corporation (“MGIC”), is providing reinsurance for $43,025,000 of the mortgage loans financed by one series of the Administration’s Bonds; notwithstanding the reinsurance provided by MGIC, the MHF pool insurance coverage in force also includes coverage for mortgage loans financed by the series. As of June 30, 2007, the amount of pool insurance coverage was recalculated to take into account the amount of loans financed by series of bonds that are no longer outstanding and have not been refunded.

(6) The ratio in the table is computed based on the maximum amount of risk rather than the aggregate amount of mortgage loans insured, where the maximum amount of risk is calculated by taking (i) the aggregate amount of pool insurance coverage required for the Administration; and then adding to that product (ii) the maximum amount of risk on loans insured under the Single Family Regular Program (see 4 above), and then dividing the sum of those two amounts by (iii) the amount of the Single Family Regular Program Reserve.

3.5 Selected Information about the Multi-Family Reserve Ratio

	06/30/07	06/30/08	06/30/09
Total Multi-Family Reserve [1]	$ 44,698,739	$ 44,698,739	$ 44,698,739
Amount Available for Calculation of "Ratio of Insurance to Available Reserve"[2]	44,698,739	44,698,739	44,698,739
Insurance Outstanding			
Multi-Family mortgage insurance in force	124,634,379	113,716,404	99,205,786
Ratio of Insurance to Available Reserve	2.79 to 1	2.54 to 1	2.22 to 1

(1) The Multi-Family Reserve does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve. As of June 30, 2009, MHF had committed no additional mortgages.

(2) In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate.

The total amount of the Multi-Family Reserve is available to pay Multi-Family insurance claims. In addition, to the extent available, MHF could elect to pay all or part of any Multi-Family claim from the Unallocated Reserve or from operating funds. MHF maintains other reserves that are not available to pay such claims (e.g., the Single Family Regular, Revitalization, Home and Energy Loan and General Reserves).

4.0 SINGLE FAMILY INFORMATION

4.1 Certain Additional Expected Single Family Claims

Under its Single Family Regular insurance program, MHF is not obligated to pay claims on Single Family insurance until after the insured lender has completed foreclosure, evicted the occupants of the properties (if necessary) and restored the property to a condition satisfactory to MHF. As a result, at any time there are a number of mortgages that have been foreclosed and which are likely to result in payment of claims but which have not yet reached the point where MHF recognizes them as liabilities in its financial statements. The total principal amount of such potential claims was $593,407 as of June 30, 2009. On a quarterly basis, MHF includes its projection of net losses with respect to these potential claims in its financial statements as part of the allowance for Single Family insurance losses. Although these amounts are not payable from the Multi-Family Reserve, they are potentially payable from other resources of MHF, including operating cash, the Unallocated Reserve and the Single Family Regular Reserve.

4.2 Discussion of Single Family Operations

MHF has taken steps to address the potential Single Family claims. A part of this focus is applying more active loss mitigation strategies to Single Family loans to prevent them from going to foreclosure, including forbearance and extended repayment plans. In addition, operational reviews of the loan servicer are ongoing. The reviews are intended to insure that loss mitigation strategies are being pursued in applicable cases.

MHF is also managing its sales of units acquired through foreclosure or similar action to improve overall returns by employing a private sector real estate broker to perform repairs, listings and sales of all REO units.

4.3 Single Family Claims Experience

The following chart sets forth information about claims on mortgage loans insured under the Single Family Regular Program Reserve, the Revitalization Reserve, and the Home and Energy Loan Reserve. This data includes net claim activity for properties sold during fiscal years ending June 30, 2007, June 30, 2008 and the fiscal year ended June 30, 2009. The data for all of these reporting periods are subject to adjustment due to additional expenses paid and proceeds received after June 30, 2009.

Single Family Claims Experience

	06/30/07	06/30/08	06/30/09
Recoveries on Sales of Properties Acquired Through Claims During the Fiscal Year	$853,910	$ -	$ 70,985
Claims Paid on Acquired Properties Sold During the Fiscal Year			
Principal	(600,904)	-	(88,643)
Interest	(56,423)	-	(4,096)
Expenses and Carrying Costs	(178,282)	-	(11,406)
Total Claims Paid	(835,609)	-	(104,145)
Net Gain(Loss) on Acquired Properties Sold During the Fiscal Year	$18,301	$ -	$ (33,160)

4.4 Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement

The Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement provide as follows:

(1) MHF will not decrease the amount of funds in the Single Family Regular Program Reserve as increased from time to time for any reason except to pay claims and advances against claims arising under the Program and for expenditures with respect to properties acquired by MHF as a result of payment of such claims.

(2) Except as necessary to pay claims and advances on claims and except for expenditures with respect to properties acquired by MHF as a result of payment of such claims, MHF will not exceed certain leverage ratios. See "MANAGEMENT'S PRESENTATION OF THE MHF PROGRAM –Discussion of Leverage Ratios."

(3) MHF will take all actions necessary for the qualification of Single Family Regular Program insurance as mortgage insurance from a qualified insurer within the meaning of Section 3.02(6)(2) of the Fannie Mae Charter Act.

4.5 Terms of Single Family Insurance Coverage

MHF insures mortgage loans on one-to-four family structures under its Single Family Regular Program, which includes the Primary Insurance Program and the Pool Insurance Program.

Primary Insurance. Historically, under the Single Family Insurance Agreement, MHF issued Primary Insurance that covered up to 25% of the total claim depending upon initial loan-to-value ratio. Under the 2005 Single Family Insurance Agreement, MHF issues Primary Insurance that covers the top 35% of the total claim. MHF Regulations provide that mortgage insurance may be terminated if: (1) the lender requests cancellation; (2) a claim is satisfied; (3) the mortgage is paid off; (4) a renewal premium is not paid by the mortgagee after its receipt of final notice from the MHF; or (5) the mortgage terms are modified without MHF approval.

Pool Insurance. MHF issued a pool insurance policy endorsement to the Administration at the time of delivery of each series of Single Family Program Bonds issued under the Administration's Single Family Program Bond General Certificate (prior to 1997). The endorsement covered the total amount of lendable proceeds generated with respect to the series. MHF reserved funds in its Single Family Regular Reserve (in accordance with the applicable leverage ratio). For each applicable series of bonds, MHF computed a stop loss equal to 10% of the re-calculated amount of proceeds of the series of bonds. The obligation of MHF to pay losses is subject to a loss limit aggregating the total stop loss amounts for the policy. As of June 30, 2007, the amount of pool insurance coverage was recalculated to take into account the amount of loans financed by series of bonds that are no longer outstanding and have not been refunded.

No pool insurance is required for loans financed under the Residential Revenue Bond Resolution.

Payment of Claims. MHF pays all claims under the Primary Insurance Program in cash. MHF may select one of four options in settling Primary Insurance claims:

(1) Loan Assignment - MHF takes an assignment of the mortgage and pays the claim (but not including expenses of foreclosure and acquisition of title);

(2) Fixed Percentage Settlement - claim settlement under this option is applicable when MHF provides only primary mortgage insurance for the loan and provides for payment based on a declared

percentage of the outstanding loan amount before foreclosure sale, and MHF, under this method, also waives any interest in the subject property;

(3) Lender Acquisition Settlement - the lender acquires title at foreclosure (or by deed in lieu of foreclosure) and transfers title to MHF, and (a) if MHF is both the primary and the pool insurer, MHF pays the full amount of the claim, or (b) if MHF is the primary insurer only, MHF pays the amount of the claim up to the percentage specified in the primary policy; and

(4) Third Party Acquisition - when the property is sold to a third party (at foreclosure, by the lender after taking a deed in lieu of foreclosure, or by the borrower after the commencement of foreclosure proceedings, with the approval of MHF), MHF pays as follows: (a) if MHF is both the primary and the pool insurer, the full amount of the claim less net proceeds of sale, or (b) if MHF is the primary insurer only, the lesser of the percentage specified in the primary policy before crediting net sales proceeds or the full claim after crediting net proceeds of sale.

For claims paid under the Lender Acquisition Settlement method, MHF requires the Administration to take all steps required after default in order to deliver the property to MHF in a condition satisfactory to MHF. These steps may include foreclosure, eviction of the occupants if necessary, and cleaning of the property. As a result, a substantial period of time may elapse between the time an insured loan goes into default and payment of a claim. MHF Regulations regarding Single Family mortgage insurance presently do not require MHF to pay interest on a claim from the time an insured lender acquires title to the property, or from the date MHF agrees to take a Loan Assignment or make a Fixed Percentage Settlement, to the time the claim is paid. Claims are not paid until after the title to the property has been conveyed, which is at least 60 days after foreclosure and could be longer. MHF will review cases that involve claims of more than nine months of delinquent interest on a case by case basis to ascertain the cause for the delayed claim and determine the amount of interest, if any, in excess of nine months to be paid. Interest will be paid in excess of nine months where circumstances beyond the control of the insured lender caused the delay in making the claim, such as the filing of bankruptcy by the mortgagor.

MHF pays all claims under the Pool Insurance Program in cash. MHF determines the loss payable on a claim as described above, and may specify alternate methods of settlement which are consistent with full recovery under the primary mortgage insurance, if any, with respect to a mortgage loan. Under any method, the coverage results in payment of the full loss as computed above, subject, however, to the aggregate loss limits specified in the Pool Insurance Policy.

5.0 MULTI-FAMILY INFORMATION

5.1 Multi-Family Insurance in Force and Available Reserves

The following table sets forth information about outstanding insurance on mortgage loans under MHF's Multi-Family program as of June 30, 2009. The amounts shown are net of debt service claim payments. The amounts shown do not include insurance on mortgage loans insured by MHF and reinsured by FHLMC. See "The FHLMC Reinsurance Agreement" below. The reinsured mortgage loans had an aggregate principal balance at June 30, 2009, of $9,388,008.

In addition to the loans listed below, as of June 30, 2009, 16 Single Family loans financed with the proceeds of Housing Revenue Bonds of the Administration, with outstanding principal balances in the aggregate amount of $289,442, are insured under the Multi-Family Reserves.

5.2 Outstanding Multi-Family Insurance as of June 30, 2009

LOAN CATEGORY	Loans with Outstanding Insurance	Original Insured Principal Amount	Outstanding Insured Principal Amount
Housing Revenue Bonds of the Administration (1)			
Multi-Family Projects	19	$ 48,248,905	$ 27,411,847
Multi-Family Bridge Loan	2	1,750,000	1,750,000
Other	55	9,752,660	9,052,815
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) of the Administration (2)			
Multi-Family Projects	23	72,341,253	41,091,529
Other	74	7,952,656	5,887,726
General Bond Reserve Fund (Insured Mortgage Loans of the Administration) (3)	11	1,979,570	1,965,194
HELP Program (4)	1	507,000	54,941
Housing Opportunities Commission of Montgomery County (5)	4	17,043,000	9,317,658
Other Financial Institutions (6)	2	8,599,079	2,674,076
TOTAL	191	$168,174,123	$99,205,786

(1) Loans financed with proceeds of the Administration's Housing Revenue Bonds. The Loans provided permanent financing or construction and permanent financing for developments located in 8 counties and the City of Baltimore. These Developments (not including SHOP) contain 1,984 units of which 894 units in 8 Developments are assisted under the Section 8 Program. The 55 projects in the "Other" category represent 178 units for SHOP Loans that do not exceed 75% of the maximum acquisition cost set by the MMP.

(2) Loans financed with proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans). The Loans provided permanent financing or construction and permanent financing for developments located in 10 counties and the City of Baltimore. The Developments (not including SHOP) contain 2,159 of which 401 units in 5 Developments are assisted under the Section 8 Program. The mortgage loans were initially endorsed for insurance between 1982 and December 31, 1997. The 23 Multi-Family Projects include SHOP Loans that exceed 75% of the maximum acquisition cost set by the MMP; the 74 projects in the "Other" category represent 249 units for SHOP Loans, that do not exceed 75% of the maximum acquisition cost set by the MMP.

(3) Loans financed with General Bond Reserve Funds for SHOP Loans; the 11 projects represent 32 units for SHOP Loans that do not exceed 75% of the maximum acquisition cost set by the MMP.

(4) Loan financed with proceeds of the Administration's Home and Energy Loan Bond. The mortgage loan provided energy conservation and rehabilitation financing for the development located in the City of Baltimore. The development contains 304 units. The mortgage loan was initially endorsed for insurance in 1987.

(5) Insurance issued to the Housing Opportunities Commission of Montgomery County ("HOC") to insure loans financed with proceeds of bonds issued by HOC. The mortgage loans provided financing for developments containing 427 units. The mortgage loans were initially endorsed for insurance between 1980 and 1996.

(6) Insurance issued to a private financial institution to insure 2 mortgage loans providing financing for two developments containing 501 units. One mortgage loan was initially endorsed for insurance in 1994 in the amount of $4,000,000, and one mortgage loan was initially endorsed for insurance in 1993 in the amount of $4,599,079.

Charts detailing the Multi-Family loans insured by MHF and financed by the Administration may be found in the Administration's filings in accordance with Rule 15c2-12 of the Securities and Exchange Commission with the Electronic Municipal Market Access ("EMMA") for Housing Revenue Bonds and for Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

5.3 Certain Additional Expected Multi-Family Claims

MHF Regulations provide that after a mortgage loan insured by MHF has been in default for six months, the Administration or any other public agency that is an insured lender may require that the mortgage loan be assigned to MHF and an insurance claim paid by MHF to the Administration or such public agency. MHF currently has no loans in financial default.

5.4 Discussion of Multi-Family Operations

Portfolio Risk Rating. Since June 1997, the Department has developed and implemented a rating system for the MHF-insured Multi-Family portfolio. The Division evaluates each insured project each quarter and assigns the loan a rating of "A," "B," or "C." Factors considered in evaluating projects include the project type, the vacancy level, net operating income and debt service coverage ratio, whether the mortgage is delinquent, the age of the loan and the age of the project, whether there is significant deferred maintenance, adequacy of funds held in reserve for replacements in relation to age and condition of project, rating by the Division in its annual management review, and stability of the market surrounding the property.

"A" Projects are those projects that require no more than standard attention because no factors indicate the prospect of default.
"B" Projects are those projects which are not in default but require more oversight and monitoring and present the possibility for default if existing conditions deteriorate further.
"C" Projects are those projects that are in financial or physical default.

5.5 MHF's Risk Rating of the Multi-Family Projects as of June 30, 2009

	Current Principal Balances	Percentage of Total Principal	Number of Loans	Number of Projects
"A" Loans:	$ 74,349,003	74.94%	34	31
"B" Loans:	24,856,783	25.06%	17	14
Portfolio Totals:	$ 99,205,786	100.00%	51	45

(1) Included in the 'A' Loans, in the 'Current Principal Balance' column is $16,905,735 for 140 SHOP loans which are not reflected in the 'Number of Loans' or 'Number of Projects' columns.

Portfolio Management. The Division is evaluating each of the loans in the "B" category to develop a plan for stabilizing the loans and reducing its potential for default. Strategies may include loan modification, use of additional resources, adjustments to funding of reserves for replacement going forward, and replacement of management agents. As of June 30, 2009, there were no loans in the "C" category.

5.6 Multi-Family Claims Experience

The following chart describes claims paid by MHF on loans insured under the Multi-Family Reserve as of June 30, 2009.

In the column entitled "Claims Net of Cash Recoveries," the figures show the result as of June 30, 2009. Workouts are in progress. See the individual footnotes below for further information.

MULTI-FAMILY CLAIMS PAID BY MHF
As of June 30, 2009

Development/Claim Status	Principal	Interest & Carrying Costs	Total	Recoveries	Claims Net of Cash Recoveries	Date Claim Paid
Closed Claims						
Single Family Mortgage Loans[1]	$ 309,392	$ -	$309,392	$ 346,620	$ 37,228	Various
Beethoven Apartments	40,000	-	40,000	40,000	-	
Douglynne Woods & Rhoda's Legacy	566,658	-	566,658	566,658	-	04/1982
Bond Street[2]	543,940	71,711	615,651	408,859	(206,792)	08/1989
Belleview-Manchester[3]	288,333	-	288,333	-	(288,333)	10/1990
Strathdale Manor Apartments[4]	10,700,000	2,376,830	13,076,830	-	(13,076,830)	05/1994
Walker Mill[5])	3,346,441	1,229,080	4,575,521	2,314,817	(2,260,704)	01/1997
Edmondale[6]	457,739	24,206	481,945	-	(481,945)	04/1997
Town Properties[7]	819,111	12,493	831,604	582,989	(248,615)	07/1997
Loch Raven[8]	12,103,623	1,065,472	13,169,095	9,080,444	(4,088,651)	02/1998
Village Home Apartments[9]	954,202	55,182	1,009,384	649,523	(359,861)	12/1998
Regent Apartments[10]	1,227,455	72,446	1,299,901	860,603	(439,298)	01/1999
Maple Avenue[11]	3,053,892	211,540	3,265,432	1,748,397	(1,517,035)	06/1999
Westfield Apartments[12]	4,401,438	390,924	4,792,362	2,910,539	(1,881,823)	11/1999
Westfield Gardens[13]	496,757	1,735	498,492	279,435	(219,057)	11/1999
Apartments at the Greens[14]	6,337,284	21,927	6,359,211	6,010,026	(349,185)	11/1999
Stewarttown[15]	2,543,590	-	2,543,590	2,150,000	(393,590)	12/1999
Telephone Apartments[16]	1,030,275	33,569	1,063,844	773,833	(290,011)	01/2001
Robinwood Townhomes[17]	2,451,741	218,057	2,669,798	2,630,807	(38,991)	11/2001
North Avenue Terraces[18]	1,155,285	48,762	1,204,047	750,000	(454,047)	07/2002
SHOP Loans[19]	772,987	78,925	851,912	725,068	(126,844)	03/2001
Bell Haven Apartments[20]	5,856,640	2,449,128	8,305,768	5,842,157	(2,463,611)	03/1996
Quail Run/Bay Street Properties[21]	1,182,578	37,677	1,220,255	1,186,575	(33,680)	03/2003
Tomall Apartments[22]	152,885	994	153,879	75,000	(78,879)	06/2004
Market Mews[23]	1,700,014	1,565,862	3,265,876	$2,168,828	(1,097,048)	12/1985
Claims where debt is outstanding						
Renaissance Plaza[24]	$6,907,349	$4,680,554	$11,587,903	$4,292,180	$(7,295,723)	02/1991
Mount Pleasant[25]	3,506,595	601,296	4,107,891	4,023,946	(83,945)	02/1996
Villages of Laurel[26]	5,036,854	607,133	5,643,987	3,889,512	(1,754,475)	11/1999
Eastdale[27]	3,302,667	320,060	3,622,727	2,976,484	(646,243)	11/1999
Claims where REO is held						
Hollins Townhouses[28]	$2,445,475	$1,066,536	$3,512,011	$1,889,843	$(1,622,168)	10/1990
Lease-Purchase[29]	1,534,088	82,619	1,616,707	880,712	(735,995)	05/1996

(1) Claims on eight Single Family loans insured under the Multi-Family Reserve before 1980.

(2) Bond Street Deed of Trust Note in the original principal amount of $543,940.

(3) Belleview-Manchester was a Construction Loan under Administration's HELP Program; secured by a second mortgage. First insured lender bought property at the foreclosure sale.

(4) Strathdale Manor Apartments Deed of Trust Note in the original principal amount of $14,285,000. Claim amount paid by MHF included $10,700,000 of original principal on the Note and $145,139 in interest. MHF paid $2,205,204 of operating deficits for the project. The proceeds of a letter of credit in the amount of $3,585,000 provided by Maryland National Bank were used to cover the rest of the original principal portion of the Note. As required by an intercreditor agreement between

MHF and Maryland National Bank, MHF filed for foreclosure on August 4, 1994, and after prolonged negotiations with Baltimore City, the project developer, and other developers interested in further renovating the project proved unsuccessful, the property was sold to Baltimore City at foreclosure on April 15, 1997. The property was sold for an amount that was insufficient to provide any recovery to MHF.

(5) Walker Mill Deed of Trust Note in the original principal amount of $4,400,000, as modified by an allonge dated November 5, 1987, reducing the principal amount of the note to $3,400,000. The Deed of Trust Note was sold and assigned to an unrelated third party purchaser on February 6, 1997.

(6) Edmondale Deed of Trust Note was in the original principal amount of $508,000.

(7) Town Properties Deed of Trust Note in the original principal amount of $884,984. The property was sold to an unrelated third party at foreclosure on August 7, 1997.

(8) Loch Raven Deed of Trust in the original principal amounts, as amended into two Deed of Trust Notes, of $9,765,000 and $2,785,000, respectively. In return, the Administration accepted a demand note from MHF in the principal amount of $11,782,615, the amount of the outstanding indebtedness net of the non-refundable deposit for the sale of the deed of trust notes bearing interest at 8.25%. The Deed of Trust Notes were sold and assigned to an affiliate of the borrower on February 3, 1998. MHF received net sale proceeds in the amount of $8,900,000, which were combined with additional claim payments totaling $2,890,216 to repay the claim note and accrued interest. The net loss on the transaction was paid from the Unallocated Reserve.

(9) Village Home Apartments Deed of Trust Note in the original principal amount of $986,856, dated September 30, 1993. The property was sold for $640,000. The Administration accepted a claim note from MHF for $1,009,109. MHF paid $318,664 plus $50,720 paid previously as pre-claim payments and $275 per diem interest and then signed over the proceeds to repay the claim note in December 1999.

(10) Regent Apartments Deed of Trust Note in the original principal amount of $1,255,000 dated September 16, 1994. The property was sold for $860,603. The Administration accepted a claim note from MHF for $1,299,265. MHF paid $383,187 plus $55,475 paid previously as pre-claim payments and $636 per diem interest and then signed over the proceeds to repay the claim note in January 1999.

(11) Maple Avenue Deed of Trust Note in the original principal amount of $3,150,000 dated March 12, 1992. The property was sold for $1,700,000 less settlement charges. The Administration accepted a claim note from MHF for $2,953,878. MHF paid $1,288,286 plus $310,294 paid previously as pre-claim payments, $1,259 per diem interest, signed over the proceeds, and, with $10,000 received directly by the Administration, repaid the claim note in June 1999.

(12) Westfield Apartments Deed of Trust Note in the original principal amount of $4,600,000 dated April 12, 1983. The property was sold for $2,910,539. MHF paid a partial claim in the amount of $1,433,520 that includes $390,924 of accrued interest plus $448,303 paid previously as pre-claim payments.

(13) Westfield Gardens Deed of Trust Notes in the original principal amounts of $498,908 and $28,150 dated September 21, 1983. The property was sold for $279,435. MHF paid a partial claim in the amount of $180,318, which included $1,735 of accrued interest, plus $38,739 paid previously as pre-claim payments.

(14) Apartments at the Greens Deed of Trust Notes in the original principal amounts of $6,348,627 and $341,850 dated April 21, 1983. The property was sold for $6,010,026. MHF paid a partial claim in the amount of $302,222, which included $21,927 of accrued interest, plus $46,963 paid previously as pre-claim payments.

(15) Stewarttown Deed of Trust Note in the original principal amount of $3,136,100 dated July 18, 1975. The property was sold for $2,150,000. MHF paid a partial claim payment in the amount of $393,590.

(16) In May 1993, MHF paid a partial claim on a project called Telephone Apartments, in the amount of $291,487 for which a promissory note has been received. On February 8, 2001, MHF sold the Deed of Trust Note. The proceeds of the sale exceeded the claim paid to the Administration by MHF by $1,477. The partial claim of $291,487 will not be repaid. MHF had an allowance for loan loss for the full amount of this note.

(17) Robinwood Townhomes Deed of Trust Note was in the original principal amount of $2,641,750. MHF paid a claim in full in the amount of $2,653,883 on November 9, 2001. MHF foreclosed on this property on November 15, 2001. MHF sold the property for the purchase amount of $2,410,000. The Circuit Court of Baltimore City ratified the sale on January 10, 2002. On June 24, 2002, MHF collected $2,330,331 in net sales proceed.

(18) In July 2002, MHF issued a claim note to the Administration and accepted assignment of an insured Deed of Trust and Deed of Trust Note in the original principal amount of $1,350,000 that financed a project known as North Avenue Terrace. MHF sold the Deed of Trust Note and received sales proceeds in the amount of $750,000 on July 25, 2002. MHF paid the claim note in full with payment to the Administration in the amount of $1,145,826 on July 30, 2002.

(19) Nine Deed of Trust Notes in the original principal amounts of $833,650 for the various SHOP loans. MHF paid full claim payments on the nine loans in the amounts of $824,224. In March 2001, MHF accepted five loan assignments in the original principal amount of $502,950. MHF paid full claims on the five loans for $491,062 and received full recovery on the first and fourth loans by virtue of third party sales at foreclosure on June 7, 2001. MHF realized losses on the sale of second and third loans of approximately $27,000 and $22,000, respectively. MHF realized a loss of approximately $40,000 on the fifth loan by virtue of third party purchasing on June 7, 2001. In August 2001, MHF accepted one assignment in the principal amount of $108,000. MHF paid a full claim on the loan for $106,372 and realized full recovery at a third party foreclosure sale on August 16, 2001. In October 2001, MHF accepted another three assignments in the original principal

amount of $222,700. MHF paid full claims on the three loans for $226,790 and received full recovery on one loan at the third party foreclosure sale on June 13, 2002. MHF realized losses of approximately $18,000 and $16,000 on the two loans at the third party foreclosure sale on June 13, 2002. The court ratified the foreclosure sales on July 26, 2002.

(20) In June 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note, for a project named Belle Haven, in the original amount of $6,186,990. MHF paid a claim in full for the project in the amount of $7,995,330 on June 26, 1996. MHF received partial recovery of this amount upon disposition of the underlying collateral. The property was brought-in by MHF with a bid of $5,100,000 at a foreclosure auction held on July 25, 2000. The Circuit Court of Prince George's County ratified the foreclosure sale on January 25, 2001. A contract for the sale of the property was executed on February 7, 2001, and sold on August 30, 2001, in the amount of $5,100,000. MHF received net proceeds from the sale in the amount of $4,844,394 and a Note in the remaining amount of $210,000 payable by February 1, 2004. The purchaser made payments on the MHF Note totaling $232,981, including the final payment in the amount of $130,772 which was received on May 21, 2003.

(21) In March 2003, MHF accepted assignment of an insured Deed of Trust and Deed of Trust Note in the original principal amount of $1,276,037 that financed a project known as Quail Run Apartments (Bay Street Properties). MHF paid the claim note in full on March 13, 2003 with a payment to the Administration in the amount of $1,058,783. The property was sold at a foreclosure auction on June 27, 2003 for $1,160,000. Settlement of the transaction occurred on November 5, 2003. On December 2, 2003, the Circuit Court for Worcester County ratified the auditors' report of the transaction. On December 4, 2003, after payment of the auctioneer's commission and advertising expenses, sales proceeds in the amount of $1,174,575 were collected with additional interest received.

(22) On September 19, 1984, the Administration made a loan in the principal amount of $250,000 (the "Loan") to Ronald H. Thomas (the "Borrower") in connection with a project called Tomall Apartments (the "Project"). MHF paid the claim note in full on June 28, 2004 with a payment to the Administration in the amount of $153,879. On June 30, 2004, MHF collected $75,000 which represents a partial recovery. The property was sold to a new owner who plans to rehabilitate the project.

(23) Market Mews Deed of Trust Note in the original principal amount of $1,700,000. MHF paid all amounts in arrears totaling $151,733. The Administration accepted a promissory note from MHF in the total principal amount of $1,693,568, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of $3,265,876. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. The original collateral for the loan consisted of 31 scattered site units of which all units were sold.

(24) Renaissance Plaza Deed of Trust Note in the original principal amount of $7,000,000. MHF paid all amounts in arrears totaling $428,052 in February 1991. In connection with the default, MHF also paid additional principal of $6,880,050; interest totaling $1,498,664, and operating deficits in the amount of $2,781,137. The Renaissance Plaza project, which consists of three buildings, has been sold pursuant to the orders of a judicial receivership. Closing on the sale of one building occurred on December 30, 1993. MHF received two notes in payment of the purchase price: a first lien mortgage in the amount of $2,722,544 at 6.22% interest, $365,000 of which is an amortizing loan, the balance to be paid out of cash flow, if any, from the properties; and a second lien gap note in the amount of $512,404 at 0% interest until maturity. The gap note was paid in full at the closing of financing for rehabilitation of the building on February 18, 1994. The closing of the other two buildings occurred on December 14, 1994. MHF received three notes in payment of the purchase price for the two buildings: a first lien mortgage in the amount of $2,600,000 at 7.4% interest to begin amortizing on January 1, 1997; a second lien mortgage in the amount of $4,450,000 at 8.23% interest to be paid out of cash flow, if any, from the properties; and a third lien gap note in the amount of $500,000 at 0% interest until maturity (April 13, 1995), and a default rate of 7.4% interest. The gap note was paid in full at the closing of financing for rehabilitation of the two buildings on February 14, 1995. The $2,600,000 deed of trust note was sold at par and assigned to the Administration on September 24, 1996, in connection with an issuance of bonds by the Administration.

(25) In February 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original principal amount of $3,900,000 for a project called Mount Pleasant. MHF paid a claim for the project in the amount of $4,107,891 on February 15, 1996. The property was sold to new ownership who planned to rehabilitate the project using a combination of new equity funds and State and City of Baltimore financing in combination with proceeds of the Administration's Multi Family 1995 December Bond Issue in the amount of $2,550,000. New Administration and MHF loan documents were executed in conjunction with a loan closing in July 1996. MHF received a Deed of Trust Note in the amount of $1,087,259 of which $293,770 is an amortizing 0% interest loan, and the balance is a cash flow loan with interest accruing at 2% per annum. MHF received partial recovery of $2,450,000 at the time of closing and $1,066,720 in September 1996. Reserves for construction contingencies and various operating expenses, in the amount of $460,305, were funded from the recovery proceeds. In June 1998, a construction reserve held by MHF in the amount of $198,000 and cost certification savings received from the Administration in the amount of $100,513 were applied to reduce the outstanding principal balance of the Deed of Trust note held by MHF.

(26) Villages of Laurel Deed of Trust Note in the original amount of $5,140,000. The loan was refunded with $3,173,200 in new bond proceeds. MHF made a partial claim payment in the amount of $1,645,098 and pre-claim payments in the amount of $825,689. MHF received cash of $54,023 and a cash flow note in the amount of $2,416,765, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of $662,290.

(27) Eastdale Deed of Trust Note was in the original amount of $3,401,000. The loan was refunded with $2,450,000 in new bond proceeds. MHF made a partial claim payment in the amount of $746,513 and pre-claim payments in the amount of $426,214. MHF received cash of $54,324 and a cash flow Note in the amount of $1,118,403, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of $472,159.

(28) Hollins Townhouses Deed of Trust Note in the original principal amount of $2,300,000. MHF paid all amounts in arrears totaling $176,025, and the Administration accepted a promissory note from MHF in the total principal amount of $2,427,094, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of $3,512,011. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. The original collateral for the loan consisted of 48 scattered site units of which 4 units remain unsold.

(29) In May, 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original amount of $2,000,000 which financed a project known as Lease Purchase. MHF paid a claim for the project in the amount of $1,587,498 on May 15, 1996. MHF received partial recovery of this amount upon disposition of the underlying collateral. MHF accepted a deed of assignment on this project on July 12, 1996. Thirty-four of the original 40 units have been sold and the majority of the remaining units are occupied by tenants, some of whom are candidates to purchase their properties.

6.0 ACTUARIAL STUDY

The Insurance Agreement amended in 2006 no longer requires periodic actuarial studies.

7.0 FHLMC REINSURANCE AGREEMENT

On December 28, 1994, MHF, the Department, the Administration, and the Federal Home Loan Mortgage Corporation (“FHLMC”) entered into a Reinsurance Agreement (the “Reinsurance Agreement”). The purpose of the Reinsurance Agreement was to cede to and fully reinsure with FHLMC, MHF’s mortgage insurance obligations with respect to certain loans insured by MHF. Under the Reinsurance Agreement, FHLMC has agreed to fully reinsure, without any contingent liability for MHF, 17 loans insured by MHF having an original unpaid principal balance of $70,346,036 and, as of June 30, 2009, an aggregate unpaid principal balance of $9,388,008. Nine of these loans were financed originally with the Administration’s Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) and acquired with proceeds of the Administration’s Housing Revenue Bonds Series 1996 A Bonds, and are identified in the appendix “DESCRIPTION OF LOANS AND DEVELOPMENTS” in the Official Statement for the Administration’s Housing Revenue Bonds, Series 1999 D. The remainder of these loans was financed with the proceeds of the Administration’s Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

All of the units in each of the developments financed with loans reinsured by FHLMC are subject to Section 8 housing assistance payments. The contracts relating to these payments have been assigned to FHLMC as collateral security. However, FHLMC cannot exercise any remedies with respect to the housing assistance payment contracts unless and until it has paid any insurance claim with respect to a reinsured loan.

FHLMC may, under the terms of the Reinsurance Agreement, require that the Administration foreclose without assignment to FHLMC upon any reinsured loan in the event of a breach of certain warranties regarding the absence of environmental hazards.

On September 7, 2008, the Director of the Federal Housing Finance Agency (“FHFA”) appointed FHFA as conservator of Freddie Mac in accordance with the Federal Housing Finance Reform Act of 2008 (the “Reform Act”) and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. On September 7, 2008, in connection with the appointment of FHFA as conservator, Freddie Mac and the U.S. Department of the Treasury (“Treasury”) entered into a Senior Preferred Stock Purchase Agreement. Also, pursuant to its authority under the Reform Act, Treasury announced that it has established the Government Sponsored Enterprise Credit Facility (a lending facility to ensure credit availability to Freddie Mac, Fannie Mae, and the Federal Home Loan Banks that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers) and a program under which

Treasury will purchase Government Sponsored Enterprise (including Freddie Mac) mortgage-backed securities (MBS) in the open market. The announcements by FHFA and Treasury and descriptions of these programs are available at their respective websites: http://www.OFHEO.gov and http://www.Treasury.gov.

Freddie Mac registered its common stock with the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act"), effective July 18, 2008. As a result, Freddie Mac files annual, quarterly and current reports, proxy statements and other information with the SEC. Prior to July 18, 2008, Freddie Mac prepared an annual Information Statement (containing annual financial disclosures and audited consolidated financial statements) and Information Statement Supplements (containing periodic updates to the annual Information Statement).

8.0 STAFF

The Director of MHF is appointed by the Secretary of the Department and serves at the pleasure of the Secretary, with such authority as the Secretary determines to delegate to the Director. The Director also serves as the Director of the Division of Credit Assurance of the Department.

Financial operations for MHF have been centralized and are now within the Division of Finance and Administration for the Department.

Certain senior staff members of the Division of Credit Assurance, and the Division of Finance and Administration and MHF are as follows:

Name	Position
George Eaton	Director, Division of Credit Assurance and MHF
Norman Swoboda	Deputy Director, Division of Credit Assurance
Allen W. Cartwright, Jr.	Deputy Director, MHF and Director, Single Family Operations
Susan Traylor	Director, Division of Finance and Administration
Ruth Putnam	Director, MHF Finance and State Funded Loans
Bill Beans	Director, Multi-Family Operations

George Eaton was appointed Director of the Division of Credit Assurance and the Maryland Housing Fund as of March, 1999, having been Acting Director since December 1998. He has been with the Department since October 1995. He also served as Director of Multi-Family Operations from May to December 1998. From 1996 through April 1998, he was the Director for State Funded Loans for MHF. Before joining the Department, he worked for a national property management company as a District Manager, as Assistant Director at University of Maryland teaching hospital, and as Assistant Administrator of the Johns Hopkins University Hospital. He also holds an MA in Administration and has taught at several Maryland Community Colleges.

Norman Swoboda joined the staff of the Division of Credit Assurance as Deputy Director in September 2004. Prior to joining DCA, Mr. Swoboda was a Senior Finance Executive in the Division of Business Development, within the Department of Business and Economic Development. Prior to State service, Mr. Swoboda worked as a Senior Credit Analyst and Commercial Lender with the First National Bank of Maryland.

Allen W. Cartwright, Jr. joined the staff of the Division of Credit Assurance as the Deputy Director of MHF in March 2006. Mr. Cartwright also serves as Director, Single Family Operations. Mr. Cartwright previously served as MHF Manager of Finance from 1988 through 1991. Prior to rejoining the Division of Credit Assurance in 2006, Mr. Cartwright was the Chief of Mission Support and then Chief of Customer Care for the Washington Suburban Sanitary Commission from April 2000 through November 2005. Mr. Cartwright also served as the Director of Finance and then the Assistant Secretary of Finance and Administration for the Maryland Department of Natural Resources from May 1991 through April 2000. He has worked as a finance manager for the Federal Home Loan Mortgage Corporation (Freddie Mac), MCI and DuPont. He is a Certified Public Accountant and earned his BS in Commerce from the McIntire School of Commerce at the University of Virginia.

Susan Traylor, Director of the Division of Finance and Administration since June, 2007. She has been with the Department since 1998, when she joined as Director of Accounting. Prior to joining State service, she was the Chief Financial Officer of Macmillan Publishing and the Official Airlines Group. Previously, she held various financial positions with the Maxwell Communications Group and Exxon Corporation. She holds a B.A. in Economics from Western Maryland College and an M.S. in Industrial Administration from Carnegie-Mellon University.

Ruth Putnam was named Deputy Director of Finance and Administration in 2008. She continues to act as the Director of MHF Finance and State Funded Loans, a position held since January 2001. She has been with the Department since 1990 serving as a Budget Analyst from 1990 through 1994, Budget Director from 1995 through 1998 and Director of Financial Planning and Review from 1999 through 2000. Prior to joining the Department, she worked as Manager of Investor Relations in a private corporation.

Bill Beans was named Director of Multi-Family Asset Management in November 2004. He has been with the Department since 1987 and has previously served as the Director of Homeownership Programs, Deputy Director of the Community Assistance Administration and Director of Single Family Asset Management. Prior to coming to the Department, Mr. Beans worked in various housing related positions for local governments in Maryland.

9.0 ADDITIONAL INFORMATION

For additional information, please contact Investor Relations at (410) 514-7326 or cda_bonds@mdhousing.org.

Reznick Group

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

MARYLAND HOUSING FUND

JUNE 30, 2009 AND 2008

Maryland Housing Fund

TABLE OF CONTENTS

Reznick Group

Reznick Group, P.C.
500 East Pratt Street
Suite 200
Baltimore, MD 21202-3100

Tel: (410) 783-4900
Fax: (410) 727-0460
www.reznickgroup.com

INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development

We have audited the accompanying financial statements of the Maryland Housing Fund (MHF) of the Department of Housing and Community Development (DHCD) of the State of Maryland as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of MHF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Maryland Housing Fund and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Maryland Housing Fund of the Department of Housing and Community Development of the State of Maryland as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Baltimore, Maryland
September 30, 2009

Maryland Housing Fund

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

	2009	2008
ASSETS		
Current assets		
Unrestricted current assets		
Deposit with State Treasurer		
Operating account	$ 4,148,175	$ 3,437,534
Loans and interest receivable, net of allowance for loans and related losses	124,288	127,297
Acquired property	90,325	110,882
Other	17,619	5,808
Total unrestricted current assets	4,380,407	3,681,521
Restricted current assets		
Deposit with State Treasurer		
Reserve accounts	106,927,361	103,331,593
Total restricted current assets	106,927,361	103,331,593
Total current assets	111,307,768	107,013,114
Non-current assets		
Investment held for borrower	1,109,713	1,205,632
Loans and interest receivable, net of allowance for loans and related losses and current portion	388,387	413,242
Total non-current assets	1,498,100	1,618,874
Total assets	$ 112,805,868	$ 108,631,988

(continued)

Maryland Housing Fund

STATEMENTS OF NET ASSETS - CONTINUED

June 30, 2009 and 2008

	2009	2008
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 93,181	$ 193,971
Accrued compensated absences	71,498	67,774
Accrued workers' compensation	465	465
Mortgage escrow accounts	439,709	405,351
Unearned premiums	2,930,791	1,296,955
Allowance for unpaid insurance losses	593,407	152,723
Total current liabilities	4,129,051	2,117,239
Non-current liabilities		
Accrued compensated absences, net of current portion	106,358	113,343
Accrued workers' compensation, net of current portion	2,535	2,535
Investment held for borrower	1,109,713	1,205,632
Allowance for unpaid insurance losses, net of current portion	12,685,478	7,579,567
Total non-current liabilities	13,904,084	8,901,077
Total liabilities	18,033,135	11,018,316
Net assets		
Restricted net assets		
Multi-Family Reserve	44,698,739	44,698,739
Regular Single Family Reserve	33,773,875	33,773,875
Revitalization (Pilot) Reserve	2,224,450	2,224,450
Home and Energy Loan Reserve	500,000	500,000
General Reserve	10,000,000	-
Unallocated Reserve		
Committed	-	10,000,000
Uncommitted	15,730,297	12,134,529
Total restricted net assets	106,927,361	103,331,593
Unrestricted accumulated deficit	(12,154,628)	(5,717,921)
Total net assets	94,772,733	97,613,672
Total liabilities and net assets	$ 112,805,868	$ 108,631,988

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues		
Net premiums	$ 1,858,680	$ 1,533,796
Interest income on loans	537,878	541,016
Other income	47,296	41,686
Total operating revenues	2,443,854	2,116,498
Operating expenses		
General and administrative	2,818,558	2,812,748
Acquired property expenses	28,495	22,376
Net losses/(gains) on sales of acquired property	5,934	(60,044)
Provision for insurance and loan losses	6,027,574	1,984,121
Total operating expenses	8,880,561	4,759,201
Operating loss	(6,436,707)	(2,642,703)
Non-operating revenues		
Restricted interest income on reserves	3,595,768	5,471,347
Total non-operating revenues	3,595,768	5,471,347
Change in net assets	$ (2,840,939)	$ 2,828,644

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30, 2009 and 2008

	Restricted Net Assets							
	Multi-Family Reserve	Regular Single Family Reserve	Revitalization (Pilot) Reserve	Home and Energy Loan Reserve	General Reserve	Unallocated Reserve	Unrestricted Accumulated Deficit	Total
Balance at June 30, 2007	$ 44,698,739	$ 32,273,875	$ 2,224,450	$ 500,000	$ -	$ 28,163,182	$ (3,075,218)	$ 104,785,028
Interest income allocated at the discretion of DHCD Secretary	-	1,500,000	-	-	-	3,971,347	(5,471,347)	-
Transfers out	-	-	-	-	10,000,000	(20,000,000)	-	(10,000,000)
Change in net assets	-	-	-	-	-	-	2,828,644	2,828,644
Balance at June 30, 2008	44,698,739	33,773,875	2,224,450	500,000	10,000,000	12,134,529	(5,717,921)	97,613,672
Interest income allocated at the discretion of DHCD Secretary	-	-	-	-	-	3,595,768	(3,595,768)	-
Change in net assets	-	-	-	-	-	-	(2,840,939)	(2,840,939)
Balance at June 30, 2009	$ 44,698,739	$ 33,773,875	$ 2,224,450	$ 500,000	$ 10,000,000	$ 15,730,297	$ (12,154,628)	$ 94,772,733

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CASH FLOWS

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Receipts from premiums	$ 3,497,320	$ 2,064,023
Premiums refunded	(129,568)	(101,963)
Receipts from loans	157,762	147,750
Receipts from mortgage escrows	142,405	142,982
Payments for mortgage escrows	(108,047)	(106,687)
Receipts from miscellaneous fees	46,548	45,255
Payments for general and administrative expenses	(2,797,404)	(2,795,458)
Sale proceeds from acquired property	82,709	115,201
Payments for acquired property	(181,084)	(133,662)
Net cash provided by (used in) operating activities	710,641	(622,559)
Cash flows from investing activities		
Receipts from interest earned on reserves	3,595,768	5,471,347
Transfer out	-	(10,000,000)
Net cash provided by (used in) investing activities	3,595,768	(4,528,653)
Net increase (decrease) in cash	4,306,409	(5,151,212)
Deposit with State Treasurer, balance - beginning of year	106,769,127	111,920,339
Deposit with State Treasurer, balance - end of year	$ 111,075,536	$ 106,769,127

(continued)

Maryland Housing Fund

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2009 and 2008

	2009	2008
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (6,436,707)	$ (2,642,703)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Decrease in loans and interest receivable	27,864	32,361
Decrease (increase) in acquired property	20,557	(53,672)
Decrease (increase) in investments and other assets	84,108	(149,761)
(Decrease) increase in accounts payable and other accrued liabilities	(165,612)	215,887
Increase in allowance for unpaid insurance losses	5,546,595	1,558,500
Increase in unearned premiums	1,633,836	416,829
Net cash provided by (used in) operating activities	$ 710,641	$ (622,559)

See notes to financial statements

NOTE 1 - PROGRAM DESCRIPTION

The Maryland Housing Fund (MHF) was established in 1971 by Section 3-201 through 3-208 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, to encourage the flow of private investment capital into multiple-unit and Single Family housing by insuring qualified lending institutions against losses on mortgage loans. MHF is authorized to insure mortgage loans, including mortgage loans for Multi-Family developments financed by public agencies such as the Community Development Administration (CDA), and to provide primary and pool insurance for Single Family mortgage loans. MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan, but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss. Legislation enacted in 1981 enables MHF to originate mortgage loans to assist in the disposal of property acquired through foreclosure or pursuant to any other payment in settlement of a claim or loss. MHF is a unit within the division of Housing Credit Assurance of the Department of Housing and Community Development (DHCD).

MHF maintains six restricted insurance reserves, which are separate from MHF's operating funds. Five of the reserves cover specific categories of insurance; the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization (PILOT) Reserve, the Home and Energy Loan Reserve and the General Reserve. The investment earnings on each of the five specific reserves are credited to a sixth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of insurance, may be transferred into any other reserve, or may be restricted for claims under a particular category. The Unallocated Reserve is available for any category of claims or for any other purpose consistent with contractual obligations with CDA's bondholders.

The MHF statute provides that any moneys of MHF that DHCD creates as an identifiable insurance reserve may be used only in conformance with the terms and conditions creating that reserve. MHF regulations provide that each reserve is maintained to pay claims arising from its respective category of insurance and may not be subject to claims arising from other categories of insurance (except for the Unallocated Reserve, and except for claims arising from the Single Family Regular and Revitalization insurance issued before August 20, 1975, which claims are payable from all MHF insurance reserves).

NOTE 1 - PROGRAM DESCRIPTION (CONTINUED)

MHF's reserve funds are derived from the net proceeds of five issues of State of Maryland (State) general obligation bonds aggregating $39,300,000 and $7,500,000 in proceeds derived from State appropriations. In addition, the funds have earned investment income and paid claims. The unrestricted accumulated deficit reflects MHF's operations since inception less interest income. The reserves are held by the Office of the Treasurer of the State, which credits MHF with income on investment of reserves for the benefit of MHF.

A. The Multi-Family Reserve supports several programs. All existing Multi-Family insurance, other than the program from private lenders, is 100% insurance of projects financed by revenue bonds. These programs include:

- Regular Multi-Family Program insures permanent mortgages funded by CDA, the Housing Opportunities Commission of Montgomery County, and SunTrust Mortgage, Inc. These loans were originated prior to 2005.

- Risk-Share Program insures both construction and permanent mortgages financed with CDA bonds with credit enhancement under the Federal Housing Administration (FHA) Risk Sharing Program. Under the program, upon payment of a claim by FHA, CDA would be responsible for reimbursement to FHA of up to 50% of the claim. MHF would reimburse CDA for its share of such losses.

- Bridge Loan Program insures short term construction loans made for part of the development costs of rental housing projects that are awarded federal low income housing tax credits.

- Special Housing Opportunity Program (SHOP) insures mortgages financed or refinanced for the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations.

- Single Family mortgages funded through private lenders and CDA for permanent mortgages in publicly designated renewal or redevelopment areas. Insurance offered provided 100% coverage and is backed by the Multi-Family Reserve Fund. MHF is not insuring any new loans under this program; MHF continues to manage the existing portfolio.

NOTE 1 - PROGRAM DESCRIPTION (CONTINUED)

B. The Single-Family Regular Reserve insures mortgages funded by private Maryland lending institutions and CDA. These programs include:

- Single Family Regular Program consists of mortgages originated prior to 2005. These mortgages may have primary insurance (MHF is liable for the top 25% of the original mortgage) and/or pool insurance (MHF is liable for the bottom 75% of the original mortgage). Pool insurance coverage is limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). In addition, the Wisconsin Mortgage Assurance Corporation, formerly the Mortgage Guaranty Insurance Corporation, has provided reinsurance for a portion of mortgage loans financed by one series of CDA's bonds. Notwithstanding the reinsurance provided by the Wisconsin Mortgage Assurance Corporation, the pool insurance coverage in force also includes coverage for mortgages financed by this series.

- Mortgage Protection Program consists of 30 and 40 year mortgages originated after 2005, funded through CDA bonds with primary coverage of only the top 35% of the original mortgage and up to six months of mortgage payments (limited to no more than $2,000 per month). These mortgages maintain a fixed rate of interest for the full loan term and allow borrowers to finance a one-time mortgage insurance premium in the mortgage, which will require no additional outlay of cash for closing, while lowering the monthly mortgage payment. These mortgages originated since 2005.

C. Revitalization (Pilot) Reserve insures mortgages funded through CDA and private Maryland lenders for 100% of the mortgage balance.

- Pilot Programs stimulates the flow of private mortgage capital into areas which have suffered decreasing home ownership and associated economic and social instability. These mortgages originated prior to 2005.

NOTE 1 - PROGRAM DESCRIPTION (CONTINUED)

- Healthy Neighborhood Program allocates up to $1 million of the Reserve to provide credit enhancement to a loan program sponsored by a nonprofit corporation, which is intended to stabilize and strengthen property values in targeted areas in the City of Baltimore. These mortgages originated since 2005.

D. Home and Energy Loan Program (HELP) Reserve insures mortgages made prior to 2005 for the purpose of rehabilitation and energy conservation in owner occupied housing financed by CDA's Home and Energy Loan Program and are liable for up to 100% of the loan amounts.

E. General Reserve insures single family mortgages originated since 2008 and provides credit enhancement to CDA and private mortgage lenders as an incentive to refinance or restructure loans for Maryland borrowers who are in trouble with an existing loan.

F. Unallocated Reserve may be allocated and transferred by the Secretary into each of the reserves, restricted by the Secretary as a reserve for the payment of a claim as part of a work-out, applied by MHF as payment of a claim or retained in the Unallocated Reserve pending allocation, transfer or restriction. Investment earnings on each of the six Reserves are credited to the Unallocated Reserve. Legislation enacted in fiscal year 2008 requires MHF to transfer from the Unallocated Reserve, any funds in excess of $10 million annually to the State Funded Housing Loan programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Relationship with the State

MHF is one of many programs administered by DHCD and the State. Other State agencies, such as the Department of Budget and Management, support DHCD by providing services for DHCD and thus allocate a portion of their expenses to DHCD. MHF has no direct employees and are entirely supported by staff at DHCD to perform all necessary functions of MHF. Thus, MHF's accompanying financial statements are not indicative of MHF as if it were a stand-alone entity. MHF is included in the enterprise funds of the State.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Generally Accepted Accounting Principles

MHF reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). MHF adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Consequently, MHF applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Accounting Research Bulletins (ARBS) of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

D. Acquired Property

Property acquired as a result of claims settled is carried at the principal claim cost, less management's estimate of expenses and losses related to the maintenance and sale of the property, which management believes approximates fair value less costs to sell. As of June 30, 2009, acquired property consisted of $90,325 of Single Family property and $-0- of Multi-Family property. As of June 30, 2008, acquired property consisted of $110,882 of Single Family property and $-0- of Multi-Family property.

E. Allowance for Unpaid Insurance Losses

MHF provides for estimated insurance losses under each insurance plan. The allowance for unpaid insurance losses is increased by provisions charged to current operating expenses and reduced by claim payments. The provision for possible insurance losses is based on management's review of insured properties, considering past loss experience and current economic conditions which may affect the frequency of claims and the recovery of claim costs. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Restricted Net Assets

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net asset use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all funds and accounts whose purpose is to pay possible future claims are restricted as to their use, as is interest earned on these restricted assets.

G. Revenues and Expenses

MHF distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from mortgage insurance activities in connection with MHF's ongoing operations. The principal operating revenue is mortgage insurance premiums. Operating expenses include expenses relating to claims from defaulted loans and general and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. The interest earned on reserve accounts is restricted revenue.

H. Premium Income Recognition

Premium income on all loans are recognized on a straight-line basis over the benefit period covered by the premiums.

I. General and Administrative

MHF is subject to an allocation of intradepartmental support costs of the DHCD, which are included in general and administrative in the Statements of Revenues and Expenses. Such costs could affect MHF's financial position or operating results in a manner that differs from those that might have been obtained if MHF was autonomous. MHF records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year-end. Any adjustment is included on invoices and recorded in the period in which the adjustment is identified.

J. Reclassifications

Certain items from prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - CASH AND INVESTMENTS

A. Deposit with State Treasurer

MHF defines cash and cash equivalents as cash and short-term investments that are held on deposit with the State Treasurer. Cash receipts and disbursements of MHF are made through a cash pool maintained by the State Treasurer. None is uninsured and uncollateralized. Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MHF adheres to Maryland State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates. The Maryland State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase.

C. Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MHF's policy for reducing its exposure to credit risk is to comply with Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MHF's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

D. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, MHF will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. Investments and collateralized securities are held in trust by

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

the trustee or the trustee agent, kept separate from the assets of the bank and from other trust accounts and are held in MHF's name.

E. Investment Held for Borrower

The investment consists of a U.S. government treasury zero-coupon bond carried at fair value based on quoted market prices. The investment is classified as long-term based on the maturity date.

The following asset reported at fair market value and held by MHF at June 30, 2009 and 2008 is evaluated in accordance with GASB 40 for interest rate risk, credit risk, concentration of credit risk and custodial credit risk. This investment is held as collateral on a Multi-Family loan and matures on April 15, 2024.

	2009	2008
Investment held for borrower (Obligations of U.S. Government Agencies)	$ 1,109,713	$ 1,205,632

NOTE 4 - LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS AND RELATED LOSSES

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses. Mortgage loans, notes receivable and interest receivable were as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Multi-Family	$ 10,163,249	$ 10,267,007
Single Family	47,955	56,177
Interest receivable on loans	7,434,300	6,942,203
	17,645,504	17,265,387
Allowance for possible losses on Multi-Family loans	(9,700,439)	(9,784,678)
Allowance for possible losses on interest receivable	(7,432,390)	(6,940,170)
Total allowance for possible losses	(17,132,829)	(16,724,848)
Loans and interest receivable, net of allowance for loans and related losses	$ 512,675	$ 540,539
Current portion, net of allowance	$ 124,288	$ 127,297
Non-current portion, net of allowance	388,387	413,242
Loans and interest receivable, net of allowance for loans and related losses	$ 512,675	$ 540,539

Changes in the allowance for possible losses on loans and interest receivable were as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Balance, beginning of year	$ 16,724,848	$ 16,299,227
Provision charged to operations	407,981	425,621
Balance, end of year	$ 17,132,829	$ 16,724,848

NOTE 5 - UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2009 and 2008, and the changes for the years then ended were as follows:

	2009			
	Unearned premiums at beginning of year	Premiums written	Premiums earned	Unearned premiums at end of year
Multi-Family Programs				
Construction and Permanent Mortgages	$ 434,717	$ 604,738	$ 633,131	$ 406,324
SHOP Loans	70,526	92,228	114,934	47,820
Multi-Family HELP	120	466	508	78
Total Multi-Family Programs	505,363	697,432	748,573	454,222
Single Family Programs				
Single Family Regular				
Primary	521,987	2,361,453	782,709	2,100,731
Pool	117,826	241,604	252,538	106,892
Revitalization (Pilot)	2,592	5,366	5,473	2,485
Single Family HELP	10	-	10	-
Community Development Administration under Multi-Family Reserve	491	1,069	1,158	402
General	148,686	185,592	68,219	266,059
Total Single Family Programs	791,592	2,795,084	1,110,107	2,476,569
Total for the year ended June 30, 2009	$ 1,296,955	$ 3,492,516	$ 1,858,680	$ 2,930,791

NOTE 5 - UNEARNED PREMIUMS (CONTINUED)

	2008			
	Unearned premiums at beginning of year	Premiums written	Premiums earned	Unearned premiums at end of year
Multi-Family Programs				
Construction and Permanent				
Mortgages	$ 377,737	$ 730,464	$ 673,484	$ 434,717
SHOP Loans	75,970	145,212	150,656	70,526
Multi-Family HELP	155	719	754	120
Total Multi-Family Programs	453,862	876,395	824,894	505,363
Single Family Programs				
Single Family Regular				
Primary	285,263	639,760	403,036	521,987
Pool	137,141	273,231	292,546	117,826
Revitalization (Pilot)	3,184	5,578	6,170	2,592
Single Family HELP	96	42	128	10
Community Development Administration under Multi-Family Reserve	580	1,204	1,293	491
General	-	154,415	5,729	148,686
Total Single Family Programs	426,264	1,074,230	708,902	791,592
Total for the year ended June 30, 2008	$ 880,126	$ 1,950,625	$ 1,533,796	$ 1,296,955

NOTE 6 - NON-CURRENT OBLIGATIONS

Changes in non-current obligations for the years ended June 30, 2009 and 2008 were as follows:

	2009				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$ 181,117	$ -	$ (3,261)	$ 177,856	$ 106,358
Workers' compensation	3,000	-	-	3,000	465
Investment held for borrower	1,205,632	-	(95,919)	1,109,713	-
Allowance for unpaid insurance losses	7,732,290	5,546,595	-	13,278,885	593,407
Total for the year ended June 30, 2009	$9,122,039	$5,546,595	$ (99,180)	$14,569,454	$ 700,230

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$ 166,221	$ 14,896	$ -	$ 181,117	$ 67,774
Workers' compensation	5,000	-	(2,000)	3,000	465
Investment held for borrower	1,045,479	160,153	-	1,205,632	-
Allowance for unpaid insurance losses	6,173,790	1,558,500	-	7,732,290	152,723
Total for the year ended June 30, 2008	$7,390,490	$1,733,549	$ (2,000)	$ 9,122,039	$ 220,962

NOTE 7 - ALLOWANCE FOR UNPAID INSURANCE LOSSES

The allowance for unpaid insurance losses is the estimated claims settlement on notices of default that has been received by MHF, as well as loan defaults that have been incurred but have not been reported by the lenders. Financial Accounting Standards Board Statement No. 60 specifically excludes mortgage guaranty insurance from its guidance relating to the reserves for losses.

For insured Multi-Family program properties, MHF establishes loss reserves on a case-by-case basis when insured loans are identified as currently in default based on MHF's expected claim payment, net of estimated recovery. At June 30, 2009, MHF has no Multi-Family loans in default. As a result, MHF provides only limited loss reserves on the Multi-Family portfolio.

For insured Single Family loans, MHF establishes its loss reserves based on past loss experiences and the current real estate market. MHF also reserves for defaults that have been incurred but have not been reported prior to the close of an accounting period, using estimated claim rates and claim sizes for the estimated number of defaults not reported. For Single Family program properties, insured loans which have gone through foreclosure and MHF has not paid a claim, MHF also reserves for losses based on past loss experiences and the current real estate market.

MHF's reserve process is based upon the assumptions of past experience, including the current real estate market and housing values in the locations where MHF has experienced high claim rates. Therefore, the reserves are necessarily based on estimates and the ultimate liability may vary from such estimates. Management regularly reviews the evaluation of the loss reserves utilizing current information and updates the assumptions in the estimation process accordingly. Any resulting adjustments are reflected in the current period's earnings as either a provision for losses or reduction in losses. Management believes that the allowance for unpaid insurance losses at June 30, 2009 was appropriately established on an aggregate basis and was adequate to cover the ultimate net cost of settling reported and unreported claims.

NOTE 7 - ALLOWANCE FOR UNPAID INSURANCE LOSSES (CONTINUED)

Changes in allowance for unpaid insurance losses were as follows:

	Multi-Family	Single Family	Total
Balance at June 30, 2007	$ 4,183,294	$ 1,990,496	$ 6,173,790
Increase in provision	1,106,701	451,799	1,558,500
Balance at June 30, 2008	5,289,995	2,442,295	7,732,290
Increase in provision	879,180	4,740,413	5,619,593
Charge-offs	-	(72,998)	(72,998)
Balance at June 30, 2009	$ 6,169,175	$ 7,109,710	$ 13,278,885

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Multi-Family Mortgages

MHF insured mortgage loans as of June 30, 2009, net of partial claim payments, were as follows:

	Number	Current Balances
CDA Construction and Permanent Mortgages	44	$ 70,253,376
Loans financed by the Housing Opportunities Commission of Montgomery County	4	9,371,658
Loans financed by SunTrust Mortgage, Inc.	2	2,674,076
CDA SHOP Loans	140	16,905,735
CDA Multi-Family HELP Program	1	54,941
CDA Single Family Loans under Multi-Family Reserves	16	289,442
	207	$ 99,549,228

As of June 30, 2009, MHF had committed to insure $1,452,093 on two CDA Construction mortgages. The loan funds for the mortgages have yet to be drawn.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Single Family Mortgages

All loans insured by MHF are with approved lenders and are collateralized by a first or second lien against the improved property, which must be located in the State of Maryland. The details of insured loans and commitments to insure loans as of June 30, 2009, were as follows:

	Insured Mortgages			
	Original Commitments		Current Balances	
	Number	Amount	Amount	Contingent Liability
Primary insurance coverage				
Single Family Regular				
25% insured	2,318	$123,570,210	$ 81,435,051	$ 20,358,763
35% insured	405	89,294,749	88,067,331	30,823,566
Revitalization (Pilot) Program				
100% insured	57	1,906,031	1,231,776	1,231,776
2.5% insured	75	17,900,363	17,567,368	439,184
General				
35% insured	48	12,703,746	12,617,379	4,416,083
Total	2,903	$245,375,099	$200,918,905	$ 57,269,372
Single Family Regular Pool insurance coverage	3,515	$191,116,007	$122,239,929	$ 20,500,000

As of June 30, 2009, MHF had committed primary insurance coverage on 14 Revitalization (Pilot) Program mortgages in the amount of $2,619,760, with a liability of 2.5%.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

For pool insurance, as of June 30, 2009, MHF was contingently liable as insurer for an amount not to exceed $20,500,000. Coverage is limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). The amount significantly decreased in fiscal year 2007 based on an analysis CDA did on current lendable proceeds. For a portion of the insured loan portfolio, FHA has the primary only insurance coverage and MHF has only the pool insurance coverage. In addition, the Wisconsin Mortgage Assurance Corporation, formerly the Mortgage Guaranty Insurance Corporation, has provided reinsurance for a portion of mortgage loans financed by one series of CDA's bonds.

NOTE 9 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. MHF's only liability for retirement and post-employment benefits is its required annual contribution, which was paid in full by MHF to the State of Maryland prior to year-end. The System is considered part of the State's financial reporting entity, and is not considered a part of MHF's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

NOTE 10 - SUBSEQUENT EVENTS

MHF has evaluated subsequent events through September 30, 2009 which is the date of this report.