THE MARYLAND HOUSING FUND ANNUAL REPORT: FISCAL YEAR 2013

A Report to the Maryland General Assembly

November, 2013

Maryland Department of Housing and Community Development
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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 2013 Annual Report to the Maryland General Assembly. Additional information about the operations of the Maryland Housing Fund (MHF) for fiscal years 2013 and 2012 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.

Strong single family asset management, including proactive education and early loss mitigation intervention continues 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 2013 is the tenth straight year MHF reported no multi-family insured loans in financial or physical default.

The audited financial statements for fiscal year 2013 and 2012 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, 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, 2013, MHF had primary insurance commitments on mortgages for approximately $157 million and $144 million, respectively, under its Single Family and Multi-Family insurance programs.

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:

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1.0 THE MHF INSURANCE PROGRAM

The following describes the mortgage insurance programs administered by the Maryland Housing Fund ("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 a governmental unit 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 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 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 Moody's concerns and has consulted with Moody's regarding the implementation of certain of MHF's insurance programs. MHF continues to service active insured loans originated prior to 1997 and is operating the insurance programs described below.

Multi-Family Loan Programs

MHF insures 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. This is an active program with loans funded through the Administration and insured by MHF.

The Administration is a participant in the federal Department of 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 Administration ("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 for new loans. This is an active program with loans funded through the Administration with credit enhancement under the Risk-Sharing Program.

Single Family Loan Programs

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. Because market conditions caused unexpected high demand for this insurance, the Department suspended the program 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. The ability to enroll new loans under that agreement terminated March 31, 2012; however, MHF will continue its coverage of active loans enrolled in the loan pool for up to ten years after the date a loan is enrolled in the pool. The Department negotiated a new agreement dated January 12, 2012, authorizing the expenditure of up to an additional $800,000 of the Revitalization Reserve to provide credit enhancement for a second loan pool. The credit enhancement will last for a period of ten years after the date the loan is enrolled in the pool. All loans to be credit enhanced must be enrolled in the pool by January 2018.

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. 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.

Additional Information

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. Legislation was enacted during the 2008 session requiring another $10 million to be transferred, and beginning in fiscal year 2010, 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 the Department's revolving housing loan funds. For the fiscal years ending June 30, 2009, 2010, 2011, 2012, and 2013, MHF transferred $5.7 million, $2.7 million, $2.1 million, $2.05 million, and $1.1 million respectively. 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, 2012, and June 30, 2013 are included in the Appendix G – "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND." The financial statements for the fiscal years ended June 30, 2012 and June 30, 2013 have been audited by CohnReznick LLP. 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 all of the MHF Programs.

2.2 Income and Reserves

MHF's income from insurance premiums is used to pay expenses.

MHF maintains five insurance reserves, which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance: the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization Reserve, and the General Reserve. The investment earnings on each of the four specific reserves are credited to a fifth 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. Prior to 2011, MHF had maintained a sixth reserve for the Home and Energy Loan Program. The reserve balance of $500,000 was transferred into the Unallocated Reserve as the last loan insured under the program was paid off in fiscal year 2009.

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. All reserves are held by the Office of the Treasurer of the State, which credits MHF with interest income based on the total reserve balance 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 ending June 30, 2013, the overall equity decreased from $82,062,053 at June 30, 2012 to $73,667,308. The net decrease of $8,394,745 is primarily due to actual and anticipated insurance losses on acquired single family properties, and general administration costs allocated to MHF.

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.

In fiscal year 2012 and 2013, MHF paid claims directly from the reserve funds resulting in a reduction to the Unrestricted Accumulated Deficit. During the fiscal year ending June 30, 2012, the Unrestricted Accumulated Deficit decreased from $9,633,081 to a deficit of $4,992,332 and during the fiscal year ended June 30, 2013, the Unrestricted Accumulated Deficit decreased from $4,992,332 to a deficit of $11,843,619 due to operating net loss.

2.4 Discussion of Changes in Net Position

During the fiscal year ending June 30, 2013, MHF reported a Change in Net Position of ($7,326,093). The net change is due primarily to an increase in the allowance for insurance losses from acquired single family properties.

During the fiscal year ending June 30, 2012, MHF reported a Change in Net Position of $4,332,011. The net change is due primarily to a decrease in the allowance for insurance losses from acquired single family properties and decrease in interest income.

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 selected activity in MHF's operating cash account as of June 30, 2013.

	Single Family	Multi-Family	Total
Premiums Collected[1]	$2,222,764	$955,119	$3,177,883
Operating Expenses Paid[2]	(3,201,777)	(2,619,635)	(5,821,412)
Premiums Net of Operating Expenses	(979,013)	(1,664,516)	(2,643,529)
Claims[3]	(15,973,068)	(1,976)	(15,975,044)
Recoveries[4]	16,048,653	287,402	16,336,055
Net Claim Activity	75,585	285,426	361,011
Other[5]	(10,698)	61,203	50,505
Net Cash from Selected Activity	$(914,126)	$(1,317,887)	$(2,232,013)

Notes:

[1] Premiums collected as stated in the Statement of Cash Flows.

[2] Operating expenses include salaries and benefits, general administrative and intradepartmental expenses.

[3] Amount 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] Amount includes changes in other assets and liabilities such as mortgage receivables, notes payables, and escrows.

During the fiscal year ending June 2012, the net cash activity in MHF's operating cash was ($13,040,174) for Single Family and ($1,727,048) for Multi-Family. The change in Single Family is due to claim payments. The change in Multi-Family is due to increased administrative expenses.

During the fiscal year ending June 2013, the net cash activity in MHF's operating cash was ($914,126) for Single Family and ($1,317,887) for Multi-Family. The change in Single Family is due to recoveries from sales of acquired properties. The change in Multi-Family is due to recoveries from loan repayments and decrease in administrative expenses.

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 work out 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 turnaround 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

MHF operates its Single Family insurance in accordance with an insurance agreement with the Administration dated as of August 1, 2010 (the "2010 Single Family Insurance Agreement"). Claims under the Single Family Insurance Agreement may be paid from the Single Family Regular Program Reserve.

The 2010 Single Family Insurance Agreement amended and restated an insurance agreement dated as of May 14, 1980 (the "1980 Single Family Insurance Agreement") and an insurance agreement dated as of June 20, 2005. Under the 1980 Single Family Insurance Agreement, pool insurance was provided for single family mortgages financed under a bond resolution for which no bonds remain outstanding. As of August 1, 2010, under the 2010 Single Family Insurance Agreement, MHF was released from the obligation to provide pool insurance under the 1980 Single Family Insurance Agreement.

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 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, that ratio would be exceeded.

MHF and the Administration have entered into an agreement to supplement the 2010 Single Family Insurance Agreement (the "Supplemental Agreement") effective January 1, 2011. The Administration currently has single family mortgages insured with private mortgage insurance ("PMI Insurance") that covers 35% of the mortgage. Under the Supplemental Agreement, MHF would cover 50% of the losses not covered by the PMI Insurance. Claims arising under the Supplemental Agreement will be paid from the Single Family Regular Reserve and MHF's losses may not exceed $12.5 million. In return the Administration will pay a monthly premium based on the mortgage balance at December 31, 2010.

3.4 Selected Information about the Single Family Regular Reserve Ratios

	06/30/11	06/30/12	06/30/13
Single Family Regular Program Reserve(1)(2)	$20,650,923	$19,816,789	$19,250,357
Amount Available for Calculation of "Ratio of Insurance to Available Reserve(3)	20,650,923	19,816,789	19,250,357
Primary Insurance coverage in force(4)			
Insurance Agreement prior to 2005	15,708,890	13,666,598	11,760,376
Insurance Agreement post 2005	28,544,713	27,099,393	24,255,146
Pool Insurance coverage in force(5)	-	-	-
Reinsurance Program(6)	12,500,000	913,198	2,336,884
Ratio of Mortgage Loans to the Regular Reserve(7)	2.14 to 1	2.06 to 1	1.87 to 1

Notes:

(1) The Single Family Program does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve. As of June 30, 2013, 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.

(3) In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Regular Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate. As of June 30, 2013, there was no reduction in the Single Family Reserve to cover the accumulated deficit.

(4) The primary insurance coverage is 25% of the allowable claim for loans insured prior to 2005 under the Single Family Insurance Agreement ($47,041,505, at June 30, 2013). The primary insurance coverage is 35% of the allowable claim for loans insured under the 2005 Single Family Insurance Agreement ($69,300,418 at June 30, 2013).

(5) In 2010, MHF provided pool coverage for certain loans done by the Administration prior to 1997. Effective August 1, 2010 the Administration released MHF from any obligation to provide pool insurance for MHF Pool-Insured Loans.

(6) Effective January 1, 2011, MHF and the Administration entered into a Reinsurance Program for loans that the Administration had originated between 2005 and 2010. Under this program, MHF committed up to $12.5 million to cover losses incurred by the Administration. See further detail under supplemental 2010 Single Family Insurance Agreement.

(7) 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. As of June 30, 2011, MHF fully allowed for the $12.5 million for the Reinsurance Program by reducing the amount from the Single Family Regular Reserve Program. Therefore, the aggregate amount of reinsurance coverage is not included in the ratio.

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).

3.5 Selected Information about the Multi-Family Reserve Ratios

	06/30/11	06/30/12	06/30/13
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	43,625,027
Insurance Outstanding			
Multi-Family mortgage insurance in force	104,771,502	126,076,578	143,802,497
Ratio of Insurance to Available Reserve	2.34 to 1	2.82 to 1	3.30 to 1

Notes:

[(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, 2013, MHF had committed to additional mortgages in the amount of $9,386,669.

[(2)] In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Regular Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate. As of June 30, 2013, there was no reduction in the MF Reserve to cover the accumulated deficit, however, an adjustment of $1,073,712 was made to the amount available to calculate the ratios.

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, and General Reserves).

4.0 SINGLE FAMILY INFORMATION

4.1 Additional Single Family Claims Potential

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 $1,607,843 as of June 30, 2013. 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 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 servicers 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 and the Revitalization Reserve. This data includes net claim activity for properties sold during fiscal years ending June 30, 2012 and June 30, 2013. The data for all of these reporting periods are subject to adjustment due to additional expenses paid and proceeds received after June 30, 2013.

Single Family Claims Experience

	06/30/11	06/30/12	06/30/13
Recoveries on Sales of Properties Acquired Through Claims During the Fiscal Year	$123,507	$1,953,184	$15,911,690
Claims Paid on Acquired Properties Sold During the Fiscal Year			
Principal	(184,503)	(2,946,181)	(26,602,915)
Interest	(7,110)	(1,187)	(0)
Expenses and Carrying Costs	(8,701)	(12,646)	(756,618)
Total Claims Paid	$(200,314)	$(2,960,014)	$(27,359,533)
Net Loss on Acquired Properties Sold During the Fiscal Year	$(76,807)	$(1,006,830)	$(11,447,843)

4.4 Single Family Insurance Agreement

The Single Family Insurance Agreement provides 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 a certain leverage ratio. 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) MHF and the Administration agree that MHF is released from any obligation to continue to provide pool insurance for loans originally covered by pool insurance under the 1980 Single Family Insurance Agreement.

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 1980 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 MHF; or (5) the mortgage terms are modified without MHF approval.

Pool Insurance. Effective August 1, 2010, MHF was released from any obligation to provide pool insurance for loans originally covered by pool insurance under the 1980 Single Family Insurance Agreement.

Reinsurance. Effective January 1, 2011, MHF and the Administration entered into a Reinsurance Program for loans that the Administration had originated between 2005 and 2010 that had only 35% mortgage insurance coverage. Under this program, the Administration pays a monthly premium for MHF to insure 50% of any losses incurred on the uninsured 65% up to $12.5 million. The program terminates on the earliest date of either when MHF has paid $12.5 million in claims or December 31, 2020.

Pending Reinsurance Claims. The total principal amount of potential reinsurance claims was $10,021,907 as of June 30, 2013. MHF is liable to the extent cash is available from REO sales and recoveries.

Payment of Claims, MHF pays all claims in cash and may settle under one of four options:

(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 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 MHF pays the amount of the claim up to the percentage specified in the insurance 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 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 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 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.

4.6 Single Family Energy Efficiency and Conservation Block

Effective May 1, 2013, the DHCD and MHF entered into an Energy Efficiency and Conservation Block Agreement with the Department of Energy. The Agreement allows up to one million dollars ($1,000,000) to provide energy efficiency and weatherization improvements for properties owned by DHCD and MHF. Asset management, a unit within the Division of Credit Assurance ("DCA") will determine which REO properties are eligible and hire contractors to perform energy audits and work with DHCD to promote the value of home energy efficiency and to sell the improved properties to low and moderate income families in Maryland. The program ends on October 31, 2013.

$21,025 was spent to enhance 52 MHF REO properties as of June 30, 2013.

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, 2013. 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, 2013, of $ 2,910,948.

In addition to the loans listed below, as of June 30, 2013, eleven Single Family loans financed with the proceeds of Housing Revenue Bonds of the Administration, with outstanding principal balances in the aggregate amount of $112,222 are insured under the Multi-Family Reserves.

5.2 Outstanding Multi-Family Insurance as of June 30, 2013

LOAN CATEGORY	Loans with Outstanding Insurance	Original Insured Principal Amount	Outstanding Insured Principal Amount
Housing Revenue Bonds of the Administration[1]			
Multi-Family Projects	37	$117,808,805	$96,605,526
Other	53	9,569,560	8,299,155
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) of the Administration[2]			
Multi-Family Projects	16	36,217,053	23,876,099
Other	62	6,813,415	4,314,552
General Bond Reserve Fund of the Administrations[3]	39	5,434,570	5,234,020
Housing Commission of Montgomery County[4]	3	13,678,000	5,473,145
TOTAL	210	$189,521,403	$143,802,497

Notes:

[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 7 counties and the City of Baltimore. These Developments (not including SHOP) contain 2,972 units of which 907 units in 7 Developments are assisted under the Section 8 Program. The 53 project in the "Other" category represent 171units for SHOP Loans that do not exceed 75% of the maximum acquisition cost set by the Maryland Mortgage Program ("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 6 counties and the City of Baltimore. The Developments (not including SHOP) contain 1,499 units of which 184 units in 2 Developments are assisted under the Section 8 Program. The mortgage loans were initially endorsed for insurance between 1982 and December 31, 1997. The 16 Multi-Family Projects include SHOP Loans that exceed 75% of the maximum acquisition cost set by the MMP; the 62 projects in the "Other" category represent 207 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 39 projects represent units for SHOP Loans that do not exceed 75% of the maximum acquisition cost set by the MMP.

[4] 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 330 units. The mortgage loans were initially endorsed for insurance between 1980 and 1996.

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 multifamily 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, 2013

	Current Principal Balances	Percentage of Total Principal	Number of Loans	Number of Projects
"A" Loans:[1]	133,480,666	92.82%	47	45
"B" Loans:	10,321,831	7.18%	9	7
Portfolio Totals:	$143,802,497	100.00%	56	52

Note:
(1) Included in the 'A' Loans, in the "Current Principal Balance" column, is $17,847,727 for 154 group home 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, 2013, 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, 2013.

In the column entitled "Claims Net of Cash Recoveries," the figures show the result as of June 30, 2013. Workouts are in progress. See the individual footnotes below for further information.

MULTI-FAMILY CLAIMS PAID BY MHF

As of June 30, 2013

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	218,05	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
Eastdale[24]	3,302,66	320,060	3,622,727	3,622,727	-	11/1999

Villages of Laurel[25]	5,036,854	607,133	5,643,987	5,643,987	-	11/1999
Hollins Townhouses[26]	2,445,475	1,073,289	3,518,764	2,052,599	(1,466,165)	10/1990
<u>Claims where debt is outstanding</u>						
Renaissance Plaza[27]	$6,907,349	$4,680,554	$11,587,903	$4,858,737	(6,729,166)	02/1991
Mount Pleasant[28]	3,506,595	601,296	4,107,891	$4,053,323	(54,568)	02/1996
<u>Claims where REO is held</u>						
Lease-Purchase[29]	$1,534,088	$82,619	$1,616,707	$901,933	$(714,774)	05/1996

Notes:

(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 proceeds.

(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 the 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 foreclosure auction held on July 25, 2000. The Circuit Court of Prince George's Count 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 know 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 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 auditor's 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 is 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] Eastdale Deed of Trust 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 $490,510. In July 2010, the loan was paid off and MHF received payment in the amount of $627,893.

[25] Villages of Laurel Deed of Trust Note, is 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 $686,059. In March 2011, the loan was paid off and MHF received payment in the amount of $1,730,706.

[26] 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 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 $3,518,764. 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 the last unit was sold in April 2011.

(27) 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.

(28) 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 contingences 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.

(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-six 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" or "Freddie Mac") 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, 2013, an aggregate unpaid principal balance of $2,910,948.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 APPENDIX D – "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, 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 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, the Division of Finance and Administration, and MHF are as follows:

Name	Position
George Eaton	Director, Division of Credit Assurance and MHF
Allen W. Cartwright, Jr.	Deputy Director, MHF and Director, Single Family Operations
Susan Traylor	Director, Division of Finance and Administration
Ruth Putnam	Deputy Director, Division of Finance and Administration
Bill Beans	Director, Multifamily Asset Management

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.

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 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. Prior to joining the Department, she worked as Manager of Investor Relations in a private corporation.

Bill Beans was named Director of Multifamily 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.

Appendix

Financial Statements and Independent Auditors' Report MHF June 30, 2013 and 2012

MARYLAND HOUSING FUND

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 AND 2012

Maryland Housing Fund

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INDEPENDENT AUDITOR'S 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 of the State of Maryland as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MHF as of June 30, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, 2013, and the changes in its net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the Maryland Housing Fund (MHF) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2012, were audited by other auditors whose report dated October 10, 2012, expressed an unmodified opinion on those statements.

CohnReznick LLP

Baltimore, Maryland
October 16, 2013

Maryland Housing Fund

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Unrestricted current assets		
Deposit with State Treasurer		
Operating account	$ 803,461	$ 2,588,198
Loans and interest receivable, net of allowance for loans and related losses	156,293	149,874
Acquired property	1,310,655	6,119,848
Due from DHCD	373,385	-
Other	1,451,525	961,493
Total unrestricted current assets	4,095,319	9,819,413
Restricted current assets		
Deposit with State Treasurer		
Reserve accounts	85,510,927	87,054,385
Reserve account - Reinsurance Pool Program	1,710,636	913,198
Total restricted current assets	87,221,563	87,967,583
Total current assets	91,316,882	97,786,996
Non-current assets		
Investment held for borrower	1,904,906	2,019,005
Loans and interest receivable, net of allowance for loans and related losses and current portion	221,685	267,004
Total non-current assets	2,126,591	2,286,009
Total assets	$ 93,443,473	$ 100,073,005

(continued)

Maryland Housing Fund

STATEMENTS OF NET POSITION - CONTINUED

June 30, 2013 and 2012

	2013	2012
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	$ 1,798,520	$ 661,670
Accrued compensated absences	144,869	94,614
Accrued workers' compensation	465	1,130
Mortgage escrow accounts	275,518	247,301
Unearned premiums	770,297	1,491,425
Allowance for unpaid insurance losses	1,607,843	1,584,200
Total current liabilities	4,597,512	4,080,340
Non-current liabilities		
Accrued compensated absences, net of current portion	192,496	190,215
Accrued workers' compensation, net of current portion	2,535	2,870
Investment held for borrower	1,904,906	2,019,005
Allowance for unpaid insurance losses, net of current portion	13,078,715	11,718,522
Total non-current liabilities	15,178,652	13,930,612
Total liabilities	19,776,164	18,010,952
Net position		
Restricted net position		
Multi-Family Reserve	44,698,739	44,698,739
Single Family Regular Reserve	19,250,357	19,816,789
Revitalization (Pilot) Reserve	2,198,502	2,216,821
General Reserve	8,593,422	9,253,385
Unallocated Reserve	10,769,907	11,068,651
Total restricted net position	85,510,927	87,054,385
Unrestricted accumulated deficit	(11,843,618)	(4,992,332)
Total net position	73,667,309	82,062,053
Total liabilities and net position	$ 93,443,473	$ 100,073,005

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Net premiums	$ 3,897,832	$ 3,952,362
Interest income on reserves	769,907	1,068,651
Interest income on loans	535,909	532,106
Other income	34,574	37,354
Total operating revenues	5,238,222	5,590,473
Operating expenses		
General and administrative	4,546,514	4,688,511
Acquired property	3,371,550	3,201,595
Net losses on sales of acquired property	2,970,487	3,860,784
Provision (benefit) for insurance and loan losses	1,675,764	(10,492,428)
Total operating expenses	12,564,315	1,258,462
Change in net position	$ (7,326,093)	$ 4,332,011

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CHANGES IN NET POSITION

Years ended June 30, 2013 and 2012

	Restricted Net Position						
	Multi-Family Reserve	Single Family Regular Reserve	Revitalization (Pilot) Reserve	General Reserve	Unallocated Reserve	Unrestricted Accumulated Deficit	Total
Balance at June 30, 2011	$ 44,698,739	$ 20,650,923	$ 2,216,821	$ 9,796,640	$ 12,050,896	$ (9,633,081)	$ 79,780,938
Interest income allocated at the discretion of DHCD Secretary	-	-	-	-	1,068,651	(1,068,651)	-
Transfers out	-	-	-	-	(2,050,896)	-	(2,050,896)
Change in net position	-	(834,134)	-	(543,255)	-	5,709,400	4,332,011
Balance at June 30, 2012	44,698,739	19,816,789	2,216,821	9,253,385	11,068,651	(4,992,332)	82,062,053
Interest income allocated at the discretion of DHCD Secretary	-	-	-	-	769,907	(769,907)	-
Transfers out	-	-	-	-	(1,068,651)	-	(1,068,651)
Change in net position	-	(566,432)	(18,319)	(659,963)	-	(6,081,379)	(7,326,093)
Balance at June 30, 2013	$ 44,698,739	$ 19,250,357	$ 2,198,502	$ 8,593,422	$ 10,769,907	$ (11,843,618)	$ 73,667,309

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Receipts from premiums, net	$ 3,177,883	$ 3,195,539
Receipts from loans	282,881	78,115
Receipts from mortgage escrows	101,219	139,313
Payments for mortgage escrows	(104,902)	(143,944)
Receipts from miscellaneous fees	54,188	36,320
Payments for general and administrative expenses	(5,821,412)	(4,581,353)
Sale proceeds from acquired property	16,053,174	1,785,344
Payments for acquired property	(15,975,044)	(15,276,555)
Receipts from interest earned on reserves	769,907	1,068,651
Transfer to state funded programs	(1,068,651)	(2,050,896)
Net cash used in operating activities	(2,530,757)	(15,749,466)
Net decrease in cash	(2,530,757)	(15,749,466)
Deposit with State Treasurer, balance - beginning of year	90,555,781	106,305,247
Deposit with State Treasurer, balance - end of year	$ 88,025,024	$ 90,555,781

(continued)

Maryland Housing Fund

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of change in net position to net cash used in operating activities:		
Change in net position	$ (7,326,093)	$ 4,332,011
Adjustments to reconcile change in net position to net cash used in operating activities		
Transfer to state funded programs	(1,068,651)	(2,050,896)
Decrease in loans and interest receivable	38,900	34,691
Decrease (increase) in acquired property	4,809,193	(6,047,213)
Increase in investments and other assets	(375,933)	(1,326,702)
Increase in due from DHCD	(373,385)	-
Increase in accounts payable and other accrued liabilities	1,102,504	1,045,822
Increase (decrease) in allowance for unpaid insurance losses	1,383,836	(10,981,112)
Decrease in unearned premiums	(721,128)	(756,067)
Net cash used in operating activities	$ (2,530,757)	$ (15,749,466)

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 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 five restricted insurance reserves, which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance; the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization (PILOT) Reserve, and the General Reserve. The investment earnings on each of the four specific reserves are credited to a fifth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of claims or for any other purpose consistent with the contractual obligations with the Administration's bondholders. In 2008, Legislation was passed under Senate Bill 983 requiring MHF to transfer from the Unallocated Account to DHCD's State Funded Revolving Housing Loan Programs all amounts in excess of $10,000,000 at the end of each fiscal year. These transfers can be found on the Statements of Changes in Net Position as Transfers Out located on page 8 of this document.

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.

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 fully insures permanent mortgages originated prior to 1997 funded by CDA and the Housing Opportunities Commission of Montgomery County.

- 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. This is an active multi-family program.

- 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. This is an active multi-family program.

- 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 continues to manage the existing portfolio but ceased issuing new insurance in 1997.

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 1997. These mortgages may have had 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 was limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). Effective August 1, 2010, MHF was released from any obligation to provide the pool insurance on these loans. MHF continues to provide primary insurance on these loans.

- 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. MHF no longer issues new insurance under this program.

- Reinsurance Program commenced in 2011 and consists of mortgages that CDA originated between 2005 and 2010 which had only 35% mortgage insurance. Under the program, CDA pays a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% up to $12.5 million. The program terminates on the earliest date of either when MHF has reached $12.5 million in net losses or December 31, 2020. All claims are paid from the Single Family Regular Reserve.

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 provides 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. MHF guarantees less than 3% of the outstanding loan balance under this program.

D. General Reserve

- Small single family programs provide 35% insurance coverage on CDA single family mortgages as an incentive to refinance or restructure loans for Maryland borrowers with an existing loan. MHF continues to maintain active mortgages but no longer issues new commitments under these programs.

E. 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 five 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 is 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

During fiscal year 2013, MHF implemented the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Prior to the adoption of this standard, MHF adopted all Financial Accounting Standards Board (FASB) statements issued, unless those pronouncements conflicted with or contradicted GASB standards. With the adoption of Statement No. 62, MHF no longer adopts or applies FASB statements.

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. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

E. Investments

The investment is 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.

F. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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, 2013 and 2012, acquired property consisted of Single Family property of $1,310,656 and $6,119,848, respectively.

H. 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.

I. Restricted Net Position

In accordance with accounting guidance issued by the GASB, net position should be reported as restricted when constraints placed on net position 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.

J. Revenues and Expenses

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. The interest earned on reserve accounts is restricted revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Premium Income Recognition

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

L. 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.

M. Recent Accounting Pronouncements

During fiscal year 2013, MHF implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The implementation of this standard did not have a material impact on MHF's financial statements other than changing the reporting title of net assets and replacing it with the title of net position. GASB has issued Statement no. 65 *Items Previously Reported as Assets and Liabilities.* While MHF is still in the process of determining the effect of implementing, it is not expected to have a material effect on the financial position of MHF.

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. MHF has on deposit with the State Treasurer both unrestricted and restricted cash and cash equivalents. MHF reports its operating account as unrestricted. MHF reserve accounts are reported as restricted

Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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 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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

The following asset reported at fair market value and held by MHF at June 30, 2013 and 2012 is evaluated in accordance with accounting guidance issued by the GASB 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.

	2013	2012
Investment held for borrower (Obligations of U.S. Government Agencies)	$ 1,904,906	$ 2,019,005

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, 2013 and 2012:

	2013	2012
Multi-Family	$ 7,675,939	$ 7,698,975
Single Family	123,697	139,561
Interest receivable on loans	8,973,388	8,681,460
	16,773,024	16,519,996
Allowance for possible losses on Multi-Family loans	(7,299,721)	(7,299,721)
Allowance for possible losses on Single Family loans	(121,937)	(121,937)
Allowance for possible losses on interest receivable	(8,973,388)	(8,681,460)
Total allowance for possible losses	(16,395,046)	(16,103,118)
Loans and interest receivable, net of allowance for loans and related losses	$ 377,978	$ 416,878
Current portion, net of allowance	$ 156,293	$ 149,874
Non-current portion, net of allowance	221,685	267,004
Loans and interest receivable, net of allowance for loans and related losses	$ 377,978	$ 416,878

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

Changes in the allowance for possible losses on loans and interest receivable were as follows for the years ended June 30, 2013 and 2012:

	2013	2012
Balance, beginning of year	$ 16,103,118	$ 15,614,434
Increase in provision	291,928	488,684
Balance, end of year	$ 16,395,046	$ 16,103,118

NOTE 5 - UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2013 and 2012, and the changes for the years then ended were as follows:

	2013			
	Unearned premiums at beginning of year	Premiums written	Premiums earned	Unearned premiums at end of year
Multi-Family Programs				
Construction and Permanent				
Mortgages	$ 763,516	$ 899,540	$ 1,075,450	$ 587,607
SHOP Loans	49,814	54,874	75,203	29,485
Total Multi-Family Programs	813,330	954,414	1,150,653	617,091
Single Family Programs				
Single Family Regular				
Primary	614,711	222,780	685,895	151,596
Reinsurance Pool	-	1,998,240	1,998,240	-
Revitalization (Pilot)	1,051	581	1,547	85
Community Development				
Administration under				
Multi-Family Reserve	278	689	720	247
General	62,055	-	60,777	1,278
Total Single Family Programs	678,095	2,222,290	2,747,179	153,206
Total for the year ended June 30, 2013	$ 1,491,425	$ 3,176,704	$ 3,897,832	$ 770,297

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 5 - UNEARNED PREMIUMS (Continued)

	2012			
	Unearned premiums at beginning of year	Premiums written	Premiums earned	Unearned premiums at end of year
Multi-Family Programs				
Construction and Permanent				
Mortgages	$ 978,757	$ 863,962	$ 1,079,203	$ 763,516
SHOP Loans	42,069	85,505	77,760	49,814
Total Multi-Family Programs	1,020,826	949,467	1,156,963	813,330
Single Family Programs				
Single Family Regular				
Primary	1,094,408	245,543	725,240	614,711
Reinsurance Pool	-	1,998,240	1,998,240	-
Revitalization (Pilot)	1,876	2,268	3,093	1,051
Community Development Administration under				
Multi-Family Reserve	326	777	825	278
General	130,056	-	68,001	62,055
Total Single Family Programs	1,226,666	2,246,828	2,795,399	678,095
Total for the year ended June 30, 2012	$ 2,247,492	$ 3,196,295	$ 3,952,362	$ 1,491,425

NOTE 6 - NON-CURRENT OBLIGATIONS

Changes in non-current obligations for the years ended June 30, 2013 and 2012 were as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$ 284,829	$ 197,405	$ (144,869)	$ 337,365	$ 144,869
Workers' compensation	4,000	-	(1,000)	3,000	465
Investment held for borrower	2,019,005	-	(114,099)	1,904,906	-
Allowance for unpaid insurance losses	13,302,722	1,383,836	-	14,686,558	1,607,843
Total for the year ended June 30, 2013	$ 15,610,556	$ 1,581,241	$ (259,967)	$ 16,931,830	$ 1,753,177

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$ 243,322	$ 41,507	$ -	$ 284,829	$ 94,614
Workers' compensation	7,291	-	(3,291)	4,000	1,130
Investment held for borrower	1,555,114	463,891	-	2,019,005	-
Allowance for unpaid insurance losses	24,283,834	-	(10,981,112)	13,302,722	1,584,200
Total for the year ended June 30, 2012	$ 26,089,561	$ 505,398	$ (10,984,403)	$ 15,610,556	$ 1,679,944

NOTE 7 - RELATED PARTY TRANSACTIONS

During 2013, MHF was over allocated general and administrative expenses by DHCD. MHF has recorded a receivable from DHCD which is unsecured, noninterest bearing and due on demand. As of June 30, 2013, the outstanding receivable was $373,385.

NOTE 8 - 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. FASB guidance 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, 2013, MHF had 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, 2013 was appropriately established on an aggregate basis and was adequate to cover the ultimate net cost of settling reported and unreported claims.

NOTE 8 - 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, 2011	$ 4,919,132	$ 19,364,702	$ 24,283,834
Increase (decrease) in provision	695,868	(11,676,980)	(10,981,112)
Balance at June 30, 2012	5,615,000	7,687,722	13,302,722
Increase in provision	846,446	537,390	1,383,836
Balance at June 30, 2013	$ 6,461,446	$ 8,225,112	$ 14,686,558

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Multi-Family Mortgages

MHF insured mortgage loans as of June 30, 2013, net of partial claim payments, were as follows:

	Number	Current Balances
CDA Construction and Permanent Mortgages	53	$ 120,481,625
Loans financed by the Housing Opportunities Commission of Montgomery County	3	5,473,145
CDA SHOP Loans	154	17,847,727
CDA Single Family Loans under Multi-Family Reserves	11	112,222
	221	$ 143,914,719

As of June 30, 2013, MHF had commitments of $9,386,669 which had not yet been drawn.

NOTE 9 - 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, 2013, were as follows:

	Insured Mortgages			
	Original Commitments		Current Balances	
	Number	Amount	Amount	Contingent Liability
Primary insurance coverage				
Single Family Regular				
25% insured	1,741	$ 91,199,355	$ 47,041,505	$ 11,760,376
35% insured	340	73,621,747	69,300,418	24,255,146
Revitalization (Pilot) Program				
100% insured	8	214,550	98,122	98,122
2.5% insured	184	33,765,126	31,264,457	781,611
General				
35% insured	41	8,782,439	9,785,264	3,424,842
Total	2,314	$ 207,583,217	$ 157,489,766	$ 40,320,097
Single Family Regular Reinsurance Program	5,235	$ 1,088,660,558	$ 1,040,521,601	$ 2,336,884

As of June 30, 2013, MHF had committed primary insurance coverage on 20 mortgages under the Revitalization Reserve, Healthy Neighborhood Program in the amount of $2,106,701 and is liable for 2.5%.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Effective August 1, 2010, MHF was released from any obligation to provide pool insurance for loans originated prior to 2005.

Effective January 1, 2011, MHF and CDA entered into a Reinsurance Pool Program for loans that CDA had originated between 2005 and 2010 which had only 35% mortgage insurance. Under the program CDA pays a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% up to $12.5 million. The program terminates on the earliest date of either when MHF has reached $12.5 million in net losses or December 31, 2020. As of June 30, 2013, MHF had paid $34,804,095 in claims to CDA for this program and recovered $22,897,120 and anticipates additional recovery in the amount of $1,743,859 from inventories held, leaving $2,336,884 available to pay additional claims in the pipeline.

NOTE 10 - 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 11 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of MHF through (Date) (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements except for the following activity that occurred subsequent to June 30, 2013.

NOTE 12 - SUBSEQUENT EVENTS (Continued)

In September 2013, MHF transferred $769,907 to the State Housing Loan Programs pursuant to 2008 Senate Bill 983 requiring MHF to transfer all amounts in excess of $10,000,000 at the end of each fiscal year.