

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL FINANCIAL INFORMATION

New Jersey Housing and Mortgage Finance Agency  
(A Component Unit of the State of New Jersey)  
December 31, 2009 and 2008  
With Report of Independent Auditors

# New Jersey Housing and Mortgage Finance Agency

## Financial Statements and Supplemental Financial Information

December 31, 2009 and 2008

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## Report of Independent Auditors

To the Agency Members  
New Jersey Housing and Mortgage Finance Agency  
Trenton, New Jersey

We have audited the accompanying financial statements of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, the General Fund and the aggregate discretely presented component units of the New Jersey Housing and Mortgage Finance Agency (the “Agency”), a component unit of the State of New Jersey, as of December 31, 2009 and for the year then ended, which collectively comprise the Agency’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency’s management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency’s December 31, 2008 financial statements and, in our report dated June 29, 2009 we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, General Fund and the aggregate discretely presented component units of the Agency, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management of the Agency regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Ernst & Young LLP*

June 30, 2010

# New Jersey Housing and Mortgage Finance Agency

## Management's Discussion and Analysis

December 31, 2009 and 2008

### **Introduction to the Financial Report**

This financial report consists of five parts; Management's Discussion and Analysis, Financial Statements, Notes to the Financial Statements, Required Supplementary Information and Supplemental Information. The New Jersey Housing and Mortgage Finance Agency (NJHMFA or Agency), as referred to throughout Management's Discussion and Analysis, is for financial reporting purposes, the primary government.

### **The Financial Statements include:**

- The Statement of Net Assets provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities).
- The Statement of Revenues Expenses and Changes in Net Assets account for all of the current year's revenue and expenses, measure the success of the Agency's operations over the past year and can be used to determine how the Agency has funded its costs.
- The Statement of Cash Flows provides information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

### **The Notes to the Financial Statements provide:**

- Information that is essential to understanding the basic financial statements, such as the Agency's accounting methods and policies.
- Details of contractual obligations, future commitments and contingencies of the Agency.
- Any other events or developing situations that could materially affect the Agency's financial position.

### **Required Supplementary Information:**

- Presents the information regarding the Agency's progress in funding its obligation to provide postemployment benefits other than pensions to its employees.

### **Supplemental Information:**

- Provides presentations of the Agency's financial information in accordance with the requirements of the various Bond Resolutions.

### **Management's Discussion and Analysis**

This section of the Agency's financial statements, the Management's Discussion and Analyses (MD&A), presents an overview of the Agency's financial performance for the years ended December 31, 2009 and 2008. It provides an assessment of how the Agency's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Agency's overall financial position.

### **The Agency's Business**

The Agency was created to provide a strong unified advocate for housing production, financing and improvement. The Agency is established under, but is not a part of, the Department of Community Affairs, and is constituted as a body politic and corporate and an instrumentality of the State exercising public and essential governmental functions. Included in the Agency's powers is the ability, *inter alia*, to provide to housing sponsors, through eligible loans or otherwise, financing, refinancing or financial assistance for fully completed, as well as partially completed projects; to issue negotiable bonds and to secure the payment thereof; and to make and enter into and enforce all contracts and agreements necessary, convenient or desirable to the performance of its duties and the execution of its powers.

NJHMFA has two subsidiaries that are discretely presented as component units in the financial statements. The Statewide Acquisition and Redevelopment Corporation (STAR) was formed to act as a housing service Agency under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency. A Better Camden Corporation ("ABC") was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in the City of Camden. Financial statements for ABC and STAR may be obtained by contacting NJHMFA.

### **Overall Financial Highlights – Year Ended December 31, 2009:**

- The Agency had an overall decrease in net assets of \$21.4 million primarily due to a \$12 million contribution to the State of New Jersey, an increase in grant expenses, the reserve for loan loss, and reduced investment income due to the historically low interest rate environment.
- Asset growth remained relatively flat at less than 1% as new mortgage originations were offset by normal principal repayments and prepayments, overall most balance sheet items were flat across the board.

- Single Family loan production was down with 979 loans originated in 2009 compared to 3,101 in 2008 due in part to private mortgage rates being subsidized by federal stimulus funds/programs, and the overall slowdown in the housing market in general.
- Despite Single Family production being down, core operations remained strong with an overall increase of 13.2% in mortgage interest income.
- The Agency received \$8.4 million in Federal Stimulus Funds for the Tax Credit Assistance Program and Tax Credit Exchange Program, which are recorded as grant income and are offset by grant expense as the funds are disbursed.
- The Agency contributed \$12.0 million of unencumbered reserves to the State's General Fund for appropriation to the Department of Community Affairs for the State Rental Assistance Program which provides rental assistance for Low-income individuals.
- Standard and Poors reaffirmed the Agency's AA rating with a stable outlook.
- The Agency issued \$71.4 million of new money Multi-Family Revenue Bonds, 2009 Series A, B, C and D. The Series D bonds, in the amount of \$19.4 million were issued as Variable Rate (Federally Taxable) bonds, were purchased by the Agency and held as an investment in the Agency's General Fund.
- The Agency issued, for the benefit of the holders of all bonds outstanding under the Multi-family 2005 Resolution, a surety bond up to an amount not to exceed \$25 million which is included as pledged funds under the resolution. The Agency Surety is a limited, general obligation of the Agency, and has a term expiring no later than November 1, 2016.
- The Agency issued Single Family Housing Revenue Bonds 2009CC, 2009DD, 2009EE, 2009FF, and 2009GG which totaled \$186.5 million. The bond issue consisted of \$100.0 million of new money financing and \$86.5 million to refund various outstanding Home Buyer Revenue Bond Resolution Series. The refunding produced a net present value savings on debt service of \$2.3 million.
- As part of the Housing and Economic Recovery Act of 2008 (HERA), through the U.S. Department of Treasury, NJHMFA has received an allocation of \$350.0 million for the New Issue Bond Program for its single-family program. The NJHMFA Board, at its December 8, 2009 meeting, approved the necessary bond documents to authorize the sale of \$350.0 million of single-family bonds under the NIBP.

### **Overall Financial Highlights – Year Ended December 31, 2008:**

- The Agency had an overall increase in net assets of \$7.6 million due to an increase in mortgage originations and proceeds from bond issuances resulting in an increase in investments.
- Mortgages outstanding increased by 24.6% from \$2.4 billion to \$2.9 billion. This was due to favorable interest rates and closing cost assistance on the Single Family programs.
- Bonds outstanding increased by 16.4% from \$2.3 billion to \$2.6 billion. This is primarily due to the issuance of \$440 million of Single Family bonds and \$98.0 million of new Multi Family bonds.
- To mitigate historically high variable interest rates on the auction rate securities (ARS) portfolio in the bond portfolios caused by outside market credit and liquidity pressures, the Agency remarketed or refunded \$108.4 million of Single Family Housing Revenue Bonds. In addition to the ARS interest expense pressure, the Multi Family portfolio also experienced interest rate spikes on its variable rate demand note (VRDN) bonds due to bond insurers being downgraded and investors tendering their bonds to the liquidity providers. The tendered bonds, which were unsuccessfully remarketed (i.e. Bank Bonds), carried a much higher interest rate. As a result, the Agency refunded \$370.5 million of Multi Family bonds.
- As a result of the volatile interest rate environment described above and an increase in bonds outstanding, bond interest expense increased by 19.7% from \$109.3 million in 2007 to \$130.9 million in 2008.
- Investments increased by 14.3%. This is a result of an increase in bond proceeds invested and increased mortgage revenues.
- Operating revenue increased 12.1% primarily due to a \$21.3 million increase in the mortgage interest income. In particular the Agency originated 3,101 Single Family loans in 2008.
- The Agency experienced a decrease in operating expenses of 2.8%. Although the bond interest expense increased 19.7%, the Agency experienced a decrease of 17.7% in loan loss reserves and a decrease of salary expense of 50.8%. The salary expense decrease resulted from the 2007 implementation of GASB 45 to recognize “Other Post Employment Benefits” (OPEB). The Agency recognized the entire unfunded actuarial liability of \$28.1 million in 2007 compared to the 2008 expense of \$2.6 million.
- Despite the increase in overall investments, investment income decreased 24.2% due to the historically low interest rate environment.

- The Agency recorded \$4.1 million in investment income related to income earned on the Special Needs Housing Trust Fund's (SNHTF) undisbursed proceeds. In 2007, the Agency received contributed capital of \$150 million which was the remaining \$150.0 million from the sale of New Jersey Economic Development Authority Motor Vehicle Surcharge Revenue Bonds to fund the Special Needs Housing Trust Fund the sole purpose of which is providing housing and residential opportunities for individuals with special needs. As a result of the decrease in contributed capital, the Agency's change in net assets decreased 94.5%.

## **Overview of the Financial Statements**

The Agency is a self-supporting entity and follows enterprise fund reporting. An enterprise fund reports activity that is financed with debt that is secured solely by a pledge of the net revenue from that activity as well as activity that is not supported by taxes or similar revenues. NJHMFA's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting matches revenues and expenses to the time period in which they are earned or attributable, respectively, which may differ from the period in which the associated cash is received or expended.

Enterprise fund statements offer short-term and long-term financial information about the Agency's activities. While detailed sub-fund information is not presented in the Agency's financial statements, separate accounts are maintained for each bond issue and component unit, as well as the Agency's general operating fund, known as the General Fund. These sub-funds permit NJHMFA to control and manage money for particular purposes and to determine that the Agency is properly using specific resources.

## **Financial Analysis**

The following sections will discuss the Agency's financial results for 2009 compared to 2008. Additionally, an examination of major economic factors that have contributed to the Agency's operations is provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Agency's financial statements, which are presented in accordance with accounting principles generally accepted in the United States. All dollar amounts are in thousands.

## **NJHMFA's Assets and Liabilities**

The Statements of Net Assets in the financial statements presents the Agency's assets, liabilities, and net assets as of December 31, 2009. The following table represents the comparison of net assets as of December 31, 2009, 2008 and 2007. The change between December 31, 2009 and December 31, 2008 should be read in conjunction with the financial statements.

The Agency's total assets and liabilities were relatively flat for December 31, 2009 when compared to balance at December 31, 2008.

**Condensed Statement of Net Assets**  
*(In Thousands)*

|                                                 | 2009         | 2008         | 2007         | % Change  |           |
|-------------------------------------------------|--------------|--------------|--------------|-----------|-----------|
|                                                 |              |              |              | 2009/2008 | 2008/2007 |
| Current and other assets                        | \$ 4,360,233 | \$ 4,352,031 | \$ 3,931,301 | .2%       | 10.7%     |
| Capital assets                                  | 12,027       | 12,493       | 12,165       | (3.7)     | 2.7       |
| Total assets                                    | 4,372,260    | 4,364,524    | 3,943,466    | .2        | 10.7      |
| Current liabilities                             | 395,768      | 369,597      | 348,225      | 7.1       | 6.2       |
| Long term liabilities                           | 2,999,488    | 2,996,574    | 2,604,426    | .1        | 15.1      |
| Total liabilities                               | 3,395,256    | 3,366,171    | 2,952,651    | .9        | 14.1      |
| Net assets:                                     |              |              |              |           |           |
| Invested in capital assets, net of related debt | 12,027       | 12,493       | 12,165       | (3.7)     | 2.7       |
| Restricted for Special Needs and under Bond     |              |              |              |           |           |
| Obligation Resolutions                          | 454,603      | 475,749      | 498,081      | (4.4)     | (4.5)     |
| Unrestricted                                    | 510,374      | 510,111      | 480,569      | .1        | 6.1       |
| Total net assets                                | \$ 977,004   | \$ 998,353   | \$ 990,815   | (2.1)%    | 0.8%      |

Net assets decreased 2.1% showing that the Agency's core operations remained stable with slight increases in assets and liabilities.

**NJHMF's Revenues and Expenses**

The Statements of Revenues, Expenses and Changes in Fund Net Assets reports revenues recognized and expenses incurred for the years ended December 31, 2009, 2008, and 2007. The table below summarizes the Agency's revenues and expenses for the years ended December 31, 2009, 2008 and 2007. It should be read in conjunction with the financial statements.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended December 31, 2009, 2008 and 2007**  
(In Thousands)

|                                      | 2009       | 2008       | 2007       | % Change  |           |
|--------------------------------------|------------|------------|------------|-----------|-----------|
|                                      |            |            |            | 2009/2008 | 2008/2007 |
| Operating revenues:                  |            |            |            |           |           |
| Interest income on mortgage loans    | \$ 174,006 | \$ 153,726 | \$ 132,382 | 13.2%     | 16.1%     |
| Fees and charges                     | 32,858     | 32,030     | 32,518     | 2.6       | (1.5)     |
| Other                                | 13,817     | 4,065      | 4,399      | 239.9     | (7.6)     |
|                                      | 220,681    | 189,821    | 169,299    | 16.3      | 12.1      |
| Operating expenses                   | 256,888    | 217,414    | 223,631    | 18.2      | (2.8)     |
| Operating loss                       | (36,207)   | (27,593)   | (54,332)   | 31.2      | (49.2)    |
| Non-operating revenues, net          | 14,858     | 35,131     | 194,497    | (57.7)    | (81.9)    |
| (Decrease) increase in net assets    | (21,349)   | 7,538      | 140,165    | (383.2)   | (94.6)    |
| Total net assets – beginning of year | 998,353    | 990,815    | 850,650    | .8        | 16.5      |
| Total net assets – end of year       | \$ 977,004 | \$ 998,353 | \$ 990,815 | (2.1)%    | 0.8%      |

**Summary of Operating Expenses for the Years Ended December 31, 2009, 2008 and 2007**  
(In Thousands)

|                                           | 2009      | 2008       | 2007       | % Change  |           |
|-------------------------------------------|-----------|------------|------------|-----------|-----------|
|                                           |           |            |            | 2009/2008 | 2008/2007 |
| Operating expenses:                       |           |            |            |           |           |
| Interest                                  | \$136,156 | \$ 130,869 | \$ 109,344 | 4.0%      | 19.7%     |
| Insurance costs                           | 1,275     | 1,623      | 1,896      | (21.4)    | (14.4)    |
| Servicing fees and other                  | 5,252     | 4,875      | 3,879      | 7.7       | 25.7      |
| Salaries and related benefits             | 24,872    | 23,519     | 47,752     | 5.8       | (50.7)    |
| Professional services and financing costs | 962       | 1,205      | 1,153      | (20.2)    | 4.5       |
| General and administrative expenses       | 7,822     | 5,730      | 6,558      | 36.5      | (12.6)    |
| Grant expense                             | 30,918    | 18,282     | 15,003     | 69.1      | 21.9      |
| Provision for loan losses                 | 49,631    | 31,311     | 38,046     | 58.5      | (17.7)    |
| Total operating expenses                  | \$256,888 | \$ 217,414 | \$ 223,631 | 18.2%     | (2.8)%    |

**Debt Administration**

At December 31, 2009, the Agency had \$2.6 billion of bond principal outstanding, net of deferral on refunding, discount and premium, a decrease of .9% over the prior year. The following table summarizes the Agency's bonds payable outstanding at December 31, 2009, 2008 and 2007, and the changes in bonds payable. Dollars are in thousands.

|                    | 2009        | 2008         | 2007         | % Change  |           |
|--------------------|-------------|--------------|--------------|-----------|-----------|
|                    |             |              |              | 2009/2008 | 2008/2007 |
| Bonds Payable, Net | \$2,617,929 | \$ 2,642,761 | \$ 2,270,141 | (.9)%     | 16.4%     |

Additional information about the Agency's debt is presented in Note 10 of the financial statements.

### **Single Family Programs**

The Agency provides a variety of residential mortgage financing programs that primarily serve low to moderate and middle-income first time homebuyers and homebuyers purchasing in certain designated urban areas. For the most part, the programs are funded with Mortgage Revenue Bond proceeds.

In 2009, The Agency issued Single Family Housing Revenue Bonds 2009CC, 2009DD, 2009EE, 2009FF and 2009GG which totaled \$186.5 million. The bond issue consisted of \$100 million of new money financing and \$86.5 million to refund \$86.5 million of outstanding Home Buyer Revenue Bond Resolution 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds. All outstanding 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds were redeemed on December 23, 2009. The Agency refunded the 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$2.3 million, or roughly 2.7% of the refunding bonds.

### **Multi-Family Programs**

On October 1, 2009, the Agency issued \$71.3 million of new money Multi-Family Revenue Bonds, 2009 Series A, B, C and D. The Series D bonds, in the amount of \$19.4 million and issued as Variable Rate (Federally Taxable) bonds, were purchased by the Agency and held in the Agency's General Fund. The Series D bond rate is reset weekly and is based off of One-Month LIBOR plus 25 basis points.

### **Contacting The Agency's Financial Management**

This financial report is designed to provide a general overview of the Agency's business, financial position, and fiscal accountability for the funds it generates and receives. If you have questions about any information in this report, contact the Finance Division of the New Jersey Housing and Mortgage Finance Agency.

# New Jersey Housing and Mortgage Finance Agency

## Statement of Net Assets

at December 31, 2009

(With Comparative Summarized Financial Information as of December 31, 2008)

(In Thousands)

|                                                            | Primary Government         |                   |              |              | Discretely Presented |             |              | Reporting Entity |              |
|------------------------------------------------------------|----------------------------|-------------------|--------------|--------------|----------------------|-------------|--------------|------------------|--------------|
|                                                            | Bonds and Obligation Funds |                   | General Fund | Subtotal     | Component Units      |             | Eliminations | December         | December     |
|                                                            | Single-Family              | Multi-Family      |              |              | STAR                 | ABC         |              | 31, 2009         | 31, 2008     |
|                                                            | Mortgage Component         | Housing Component |              |              | Corporation          | Corporation |              | Total            | Total        |
| <b>Assets</b>                                              |                            |                   |              |              |                      |             |              |                  |              |
| Current assets:                                            |                            |                   |              |              |                      |             |              |                  |              |
| Cash and cash equivalents                                  | \$ —                       | \$ —              | \$ 28,728    | \$ 28,728    | \$ 350               | \$ 96       | \$ —         | \$ 29,174        | \$ 39,143    |
| Restricted cash and cash equivalents                       | 153,308                    | 80,957            | 575,412      | 809,677      | —                    | —           | —            | 809,677          | 790,883      |
| Investments                                                | —                          | —                 | 14,085       | 14,085       | —                    | —           | —            | 14,085           | 15,762       |
| Restricted investments                                     | —                          | 19,019            | —            | 19,019       | —                    | —           | —            | 19,019           | 39,904       |
| Accrued interest receivable on investments                 | 531                        | 907               | 2,561        | 3,999        | —                    | —           | —            | 3,999            | 4,835        |
| Mortgage loans receivable, net                             | 27,654                     | 89,895            | 5,244        | 122,793      | —                    | —           | —            | 122,793          | 109,218      |
| Supplemental mortgages and other loans, net                | —                          | —                 | —            | —            | —                    | —           | —            | —                | 5,641        |
| Fees and other charges receivable                          | —                          | —                 | 3,490        | 3,490        | —                    | —           | —            | 3,490            | 3,411        |
| Due from loan servicers and insurers                       | 2,105                      | —                 | 16           | 2,121        | —                    | —           | —            | 2,121            | 2,136        |
| Interfund allocation                                       | —                          | —                 | 6,110        | 6,110        | —                    | —           | (6,110)      | —                | —            |
| Other assets                                               | 20                         | 202               | 1,270        | 1,492        | —                    | —           | —            | 1,492            | 1,077        |
| Total current assets                                       | 183,618                    | 190,980           | 636,916      | 1,011,514    | 350                  | 96          | (6,110)      | 1,005,850        | 1,012,010    |
| Noncurrent assets:                                         |                            |                   |              |              |                      |             |              |                  |              |
| Investments                                                | —                          | —                 | 257,882      | 257,882      | —                    | —           | —            | 257,882          | 255,961      |
| Restricted investments                                     | 62,036                     | 114,828           | 19,788       | 196,652      | —                    | —           | —            | 196,652          | 221,060      |
| Escrow deposits                                            | —                          | —                 | —            | —            | 184                  | —           | —            | 184              | 183          |
| Mortgage loans receivable, net                             | 1,322,941                  | 1,053,680         | 177,209      | 2,553,830    | —                    | —           | (1,770)      | 2,552,060        | 2,532,862    |
| Debt service arrears receivable, net                       | 6,417                      | 1,553             | 90           | 8,060        | —                    | —           | —            | 8,060            | 7,106        |
| Interest receivable on construction advances and mortgages | —                          | —                 | 1,675        | 1,675        | —                    | —           | —            | 1,675            | 1,675        |
| Supplemental mortgages and other loans, net                | 24,753                     | 60,684            | 222,425      | 307,862      | —                    | —           | —            | 307,862          | 285,745      |
| Deferred bond issuance costs, net                          | 9,305                      | 6,669             | —            | 15,974       | —                    | —           | —            | 15,974           | 15,869       |
| Real estate owned                                          | 2,219                      | —                 | 296          | 2,515        | —                    | —           | —            | 2,515            | 1,305        |
| Real estate held for redevelopment                         | —                          | —                 | —            | —            | —                    | 1,271       | —            | 1,271            | 1,271        |
| Capital assets, net                                        | —                          | —                 | 12,027       | 12,027       | 120                  | —           | —            | 12,147           | 12,613       |
| Other noncurrent assets                                    | —                          | —                 | —            | —            | —                    | —           | —            | —                | —            |
| Due from other funds                                       | 993                        | —                 | 3,276        | 4,269        | —                    | —           | (4,269)      | —                | —            |
| Total non-current assets                                   | 1,428,664                  | 1,237,414         | 694,668      | 3,360,746    | 304                  | 1,271       | (6,039)      | 3,356,282        | 3,335,650    |
| Total assets                                               | \$ 1,612,282               | \$ 1,428,394      | \$ 1,331,584 | \$ 4,372,260 | \$ 654               | \$ 1,367    | \$ (12,149)  | \$ 4,362,132     | \$ 4,347,660 |

See accompanying notes.

# New Jersey Housing and Mortgage Finance Agency

## Statement of Net Assets (continued)

at December 31, 2009

(With Comparative Summarized Financial Information as of December 31, 2008)

(In Thousands)

|                                                                       | Primary Government         |                   |              |            | Discretely Presented |             |              | Reporting Entity  |                   |
|-----------------------------------------------------------------------|----------------------------|-------------------|--------------|------------|----------------------|-------------|--------------|-------------------|-------------------|
|                                                                       | Bonds and Obligation Funds |                   | General Fund | Subtotal   | Component Units      |             | Eliminations | December 31, 2009 | December 31, 2008 |
|                                                                       | Single-Family              | Multi-Family      |              |            | STAR                 | ABC         |              |                   |                   |
|                                                                       | Mortgage Component         | Housing Component |              |            | Corporation          | Corporation |              | Total             | Total             |
| <b>Liabilities</b>                                                    |                            |                   |              |            |                      |             |              |                   |                   |
| Current liabilities:                                                  |                            |                   |              |            |                      |             |              |                   |                   |
| Bonds and obligations, net                                            | \$ 29,230                  | \$ 49,465         | \$ —         | \$ 78,695  | \$ —                 | \$ —        | \$ —         | \$ 78,695         | \$ 93,775         |
| Accrued interest payable on bonds and obligations                     | 14,684                     | 10,234            | —            | 24,918     | —                    | —           | —            | 24,918            | 27,733            |
| Subsidy payments received in advance                                  | —                          | —                 | 11,534       | 11,534     | —                    | —           | —            | 11,534            | 11,172            |
| Advances from the State of New Jersey for bond and housing assistance | —                          | —                 | 21,613       | 21,613     | —                    | —           | —            | 21,613            | 18,945            |
| Due to the State of New Jersey                                        | —                          | —                 | 39,830       | 39,830     | —                    | —           | —            | 39,830            | —                 |
| Other current liabilities                                             | —                          | —                 | 868          | 868        | 176                  | 72          | —            | 1,116             | 610               |
| Interfund allocation                                                  | 2,928                      | 3,182             | —            | 6,110      | —                    | —           | (6,110)      | —                 | —                 |
| Mortgagor escrow deposits                                             | —                          | 4,726             | 207,474      | 212,200    | —                    | —           | —            | 212,200           | 211,906           |
| Total current liabilities                                             | 46,842                     | 67,607            | 281,319      | 395,768    | 176                  | 72          | (6,110)      | 389,906           | 364,141           |
| Noncurrent liabilities:                                               |                            |                   |              |            |                      |             |              |                   |                   |
| Bonds and obligations, net                                            | 1,372,075                  | 1,167,159         | —            | 2,539,234  | —                    | —           | —            | 2,539,234         | 2,548,986         |
| Minimum escrow requirement                                            | —                          | 8,828             | 754          | 9,582      | —                    | —           | —            | 9,582             | 9,796             |
| Funds held in trust for mortgagor                                     | —                          | 42,985            | 327,841      | 370,826    | —                    | —           | —            | 370,826           | 361,999           |
| Unearned revenues                                                     | —                          | —                 | 20,587       | 20,587     | —                    | —           | —            | 20,587            | 8,572             |
| Other non-current liabilities                                         | 939                        | 1,742             | 20,793       | 23,474     | 367                  | 3           | —            | 23,844            | 26,499            |
| OPEB liability                                                        | —                          | —                 | 31,516       | 31,516     | —                    | —           | —            | 31,516            | 29,807            |
| Due to other funds                                                    | 3,377                      | 892               | —            | 4,269      | 1,770                | —           | (6,039)      | —                 | —                 |
| Total non-current liabilities                                         | 1,376,391                  | 1,221,606         | 401,491      | 2,999,488  | 2,137                | 3           | (6,039)      | 2,995,589         | 2,985,659         |
| Total liabilities                                                     | 1,423,233                  | 1,289,213         | 682,810      | 3,395,256  | 2,313                | 75          | (12,149)     | 3,385,495         | 3,349,800         |
| Net assets (deficit):                                                 |                            |                   |              |            |                      |             |              |                   |                   |
| Invested in capital assets, net of related debt                       | —                          | —                 | 12,027       | 12,027     | 120                  | —           | —            | 12,147            | 12,613            |
| Restricted under bond and obligation resolutions                      | 189,049                    | 139,181           | —            | 328,230    | —                    | —           | —            | 328,230           | 320,790           |
| Restricted for Special Needs Housing                                  | —                          | —                 | 126,373      | 126,373    | —                    | —           | —            | 126,373           | 154,959           |
| Restricted for redevelopment                                          | —                          | —                 | —            | —          | —                    | 1,292       | —            | 1,292             | 1,273             |
| Unrestricted                                                          | —                          | —                 | 510,374      | 510,374    | (1,779)              | —           | —            | 508,595           | 508,225           |
| Total net assets (deficit)                                            | \$ 189,049                 | \$ 139,181        | \$ 648,774   | \$ 977,004 | \$ (1,659)           | \$ 1,292    | \$ —         | \$ 976,637        | \$ 997,860        |

See accompanying notes.

# New Jersey Housing and Mortgage Finance Agency

## Statement of Revenues, Expenses and Changes in Fund Net Assets

Years Ended December 31, 2009

(With Comparative Summarized Financial Information for the Year Ended December 31, 2008)

(In Thousands)

|                                                          | Primary Government                     |                                      |                 |            | Discretely Presented |                    |              | Reporting Entity              |                               |
|----------------------------------------------------------|----------------------------------------|--------------------------------------|-----------------|------------|----------------------|--------------------|--------------|-------------------------------|-------------------------------|
|                                                          | Bonds and Obligation Funds             |                                      |                 |            | Component Units      |                    | Eliminations | December<br>31, 2009<br>Total | December<br>31, 2008<br>Total |
|                                                          | Single-Family<br>Mortgage<br>Component | Multi-Family<br>Housing<br>Component | General<br>Fund | Subtotal   | STAR<br>Corporation  | ABC<br>Corporation |              |                               |                               |
| <b>Operating revenues</b>                                |                                        |                                      |                 |            |                      |                    |              |                               |                               |
| Interest income on mortgage loans                        | \$ 75,629                              | \$ 78,977                            | \$ 19,400       | \$ 174,006 | \$ —                 | \$ —               | \$ —         | \$ 174,006                    | \$ 153,726                    |
| Fees and charges                                         | —                                      | 8,027                                | 24,831          | 32,858     | —                    | —                  | —            | 32,858                        | 32,030                        |
| Other income-net                                         | 44                                     | 939                                  | 12,834          | 13,817     | 284                  | 187                | —            | 14,288                        | 5,182                         |
| Total operating revenues                                 | 75,673                                 | 87,943                               | 57,065          | 220,681    | 284                  | 187                | —            | 221,152                       | 190,938                       |
| <b>Operating expenses</b>                                |                                        |                                      |                 |            |                      |                    |              |                               |                               |
| Interest and amortization of bond premiums and discounts | 66,619                                 | 68,879                               | 658             | 136,156    | —                    | —                  | —            | 136,156                       | 130,869                       |
| Insurance costs                                          | 158                                    | 560                                  | 557             | 1,275      | 9                    | —                  | —            | 1,284                         | 1,632                         |
| Servicing fees and other                                 | 4,937                                  | 270                                  | 45              | 5,252      | —                    | —                  | —            | 5,252                         | 4,875                         |
| Salaries and related benefits                            | 4,394                                  | 4,755                                | 15,723          | 24,872     | —                    | —                  | —            | 24,872                        | 23,519                        |
| Professional services and financing costs                | 262                                    | 417                                  | 283             | 962        | —                    | —                  | —            | 962                           | 1,205                         |
| General and administrative expenses                      | 1,031                                  | 1,229                                | 5,562           | 7,822      | —                    | —                  | —            | 7,822                         | 5,730                         |
| Grant expense                                            | —                                      | —                                    | 30,918          | 30,918     | 170                  | 168                | —            | 31,256                        | 19,307                        |
| Provision for loan losses                                | 3,474                                  | 10,311                               | 35,846          | 49,631     | —                    | —                  | —            | 49,631                        | 31,311                        |
| Total operating expenses                                 | 80,875                                 | 86,421                               | 89,592          | 256,888    | 179                  | 168                | —            | 257,235                       | 218,448                       |
| Operating income (loss)                                  | (5,202)                                | 1,522                                | (32,527)        | (36,207)   | 105                  | 19                 | —            | (36,083)                      | (27,510)                      |
| <b>Nonoperating revenues(expenses)</b>                   |                                        |                                      |                 |            |                      |                    |              |                               |                               |
| Investment income                                        | 3,365                                  | 9,102                                | 14,806          | 27,273     | 2                    | —                  | —            | 27,275                        | 34,599                        |
| Payments to the State of New Jersey                      | —                                      | —                                    | (12,000)        | (12,000)   | —                    | —                  | —            | (12,000)                      | —                             |
| Gain on sale of real estate owned                        | 24                                     | —                                    | —               | 24         | —                    | —                  | —            | 24                            | 858                           |
| Loss on early extinguishment of old debt                 | (223)                                  | (216)                                | —               | (439)      | —                    | —                  | —            | (439)                         | (321)                         |
| Total nonoperating revenues/(expenses), net              | 3,166                                  | 8,886                                | 2,806           | 14,858     | 2                    | —                  | —            | 14,860                        | 35,136                        |
| Income (loss) before transfers                           | (2,036)                                | 10,408                               | (29,721)        | (21,349)   | 107                  | 19                 | —            | (21,223)                      | 7,626                         |
| Transfers                                                | 100                                    | (249)                                | 149             | —          | —                    | —                  | —            | —                             | —                             |
| (Decrease) increase in net assets                        | (1,936)                                | 10,159                               | (29,572)        | (21,349)   | 107                  | 19                 | —            | (21,223)                      | 7,626                         |
| Net assets, beginning of year                            | 190,985                                | 129,022                              | 678,346         | 998,353    | (1,766)              | 1,273              | —            | 997,860                       | 990,234                       |
| Net assets, end of year                                  | \$ 189,049                             | \$ 139,181                           | \$ 648,774      | \$ 977,004 | \$ (1,659)           | \$ 1,292           | \$ —         | \$ 976,637                    | \$ 997,860                    |

See accompanying notes.

# New Jersey Housing and Mortgage Finance Agency

## Statement of Cash Flows

Year Ended December 31, 2009

(With Comparative Summarized Financial Information for the Year Ended December 31, 2008)

(In Thousands)

|                                                                 | Primary Government                     |                                      |                 |                               |                               |
|-----------------------------------------------------------------|----------------------------------------|--------------------------------------|-----------------|-------------------------------|-------------------------------|
|                                                                 | Bonds and Obligation Funds             |                                      |                 |                               |                               |
|                                                                 | Single-Family<br>Mortgage<br>Component | Multi-Family<br>Housing<br>Component | General<br>Fund | Total<br>December<br>31, 2009 | Total<br>December<br>31, 2008 |
| <b>Cash flows from operating activities</b>                     |                                        |                                      |                 |                               |                               |
| Receipts from interest on mortgages and loans                   | \$ 74,488                              | \$ 74,238                            | \$ 19,229       | \$ 167,955                    | \$ 147,049                    |
| Receipts from fees, charges and other                           | 374                                    | 8,058                                | 79,375          | 87,807                        | 37,793                        |
| Receipts from principal payments on mortgage receivables        | 123,534                                | 45,820                               | 119,809         | 289,163                       | 384,463                       |
| Payments to vendors and employees                               | (10,130)                               | (6,993)                              | (36,572)        | (53,695)                      | (54,641)                      |
| Payments to mortgage purchases and advances                     | (130,821)                              | (63,381)                             | (190,256)       | (384,458)                     | (724,700)                     |
| (Payments) receipts for other                                   | (12,687)                               | 1,086                                | 370             | (11,231)                      | (3,695)                       |
| Receipts for funds held in trust                                | —                                      | (822)                                | 14,938          | 14,116                        | 20,534                        |
| Net cash provided by (used in) operating activities             | 44,758                                 | 58,006                               | 6,893           | 109,657                       | (193,197)                     |
| <b>Cash flows from noncapital financing activities</b>          |                                        |                                      |                 |                               |                               |
| Receipts from proceeds of sale of bonds and obligations         | 186,485                                | 71,375                               | —               | 257,860                       | 940,755                       |
| Payments for retirement of bonds                                | (178,705)                              | (105,465)                            | —               | (284,170)                     | (566,075)                     |
| Payments for interest                                           | (65,622)                               | (69,080)                             | (483)           | (135,185)                     | (124,045)                     |
| Contribution                                                    | —                                      | —                                    | (12,000)        | (12,000)                      | —                             |
| Transfers and others                                            | 254                                    | (354)                                | 178             | 78                            | (2,371)                       |
| Net cash provided by (used in) non-capital financing activities | (57,588)                               | (103,524)                            | (12,305)        | (173,417)                     | 248,264                       |
| <b>Cash flow from capital financing activities</b>              |                                        |                                      |                 |                               |                               |
| Additions to capital assets                                     | —                                      | —                                    | (653)           | (653)                         | (1,712)                       |
| Net cash used in capital financing activities                   | —                                      | —                                    | (653)           | (653)                         | (1,712)                       |
| <b>Cash flows from investing activities</b>                     |                                        |                                      |                 |                               |                               |
| Purchases of investments                                        | (116,981)                              | (121,159)                            | (68,849)        | (306,989)                     | (553,481)                     |
| Sales/maturities of investments                                 | 116,564                                | 185,652                              | 48,792          | 351,008                       | 488,714                       |
| Earnings on investments                                         | 4,010                                  | 9,363                                | 15,825          | 29,198                        | 32,277                        |
| Net cash provided by (used in) investing activities             | 3,593                                  | 73,856                               | (4,232)         | 73,217                        | (32,490)                      |
| Net increase (decrease) in cash                                 | (9,237)                                | 28,338                               | (10,297)        | 8,804                         | 20,865                        |
| Cash and cash equivalents, beginning of year                    | 162,545                                | 52,619                               | 614,437         | 829,601                       | 808,736                       |
| Cash and cash equivalents, end of year                          | \$ 153,308                             | \$ 80,957                            | \$ 604,140      | \$ 838,405                    | \$ 829,601                    |

See accompanying notes.

# New Jersey Housing and Mortgage Finance Agency

## Statement of Cash Flows (continued)

Year Ended December 31, 2009

(In Thousands)

|                                                                                                          | Primary Government               |                                |              |                         |                         |
|----------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------|--------------|-------------------------|-------------------------|
|                                                                                                          | Bonds and Obligation Funds       |                                | General Fund | Total December 31, 2009 | Total December 31, 2008 |
|                                                                                                          | Single-Family Mortgage Component | Multi-Family Housing Component |              |                         |                         |
| <b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>  |                                  |                                |              |                         |                         |
| Operating income (loss)                                                                                  | \$ (5,202)                       | \$ 1,522                       | \$ (32,527)  | \$ (36,207)             | \$ (27,593)             |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                                  |                                |              |                         |                         |
| Depreciation expense                                                                                     | —                                | —                              | 1,092        | 1,092                   | 1,202                   |
| Amortization of premium/discount, refunding costs, bond issue costs                                      | 38                               | 919                            | —            | 957                     | 953                     |
| Net cash provided by nonoperating activities                                                             | 65,622                           | 69,078                         | 483          | 135,183                 | 124,045                 |
| Changes in operating assets and liabilities:                                                             |                                  |                                |              |                         |                         |
| Loans, net                                                                                               | (6,895)                          | (10,193)                       | (34,327)     | (51,415)                | (323,965)               |
| Fees and other charges receivable                                                                        | —                                | —                              | (79)         | (79)                    | (311)                   |
| Due from loan servicers and insurers                                                                     | 26                               | —                              | (11)         | 15                      | 514                     |
| Deferred charges – bond issuance costs, net                                                              | (138)                            | 33                             | —            | (105)                   | (2,602)                 |
| Other assets                                                                                             | 18                               | 24                             | (457)        | (415)                   | 1,162                   |
| Due to/from other funds                                                                                  | (7,881)                          | 228                            | 7,653        | —                       | (1)                     |
| Accrued interest payable on bonds                                                                        | (937)                            | (1,804)                        | (74)         | (2,815)                 | 6,248                   |
| Advance from the State of New Jersey                                                                     | —                                | —                              | 2,668        | 2,668                   | (151)                   |
| Funds held in trust for mortgagor                                                                        | —                                | (731)                          | 9,558        | 8,827                   | 9,776                   |
| Minimum escrow requirement                                                                               | —                                | (206)                          | (8)          | (214)                   | 246                     |
| Mortgagor escrow deposits                                                                                | —                                | (1,117)                        | 1,411        | 294                     | 7,851                   |
| Subsidy payments received in advance                                                                     | —                                | —                              | 362          | 362                     | (50)                    |
| Unearned revenue                                                                                         | —                                | —                              | 12,015       | 12,015                  | 1,731                   |
| OPEB liability                                                                                           | —                                | —                              | 1,709        | 1,709                   | 2,113                   |
| Other liabilities                                                                                        | 107                              | 253                            | 37,425       | 37,785                  | 5,635                   |
| Net cash provided by (used in) operating activities                                                      | \$ 44,758                        | \$ 58,006                      | \$ 6,893     | \$ 109,657              | \$ (193,197)            |

See accompanying notes.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

December 31, 2009

*(In Thousands)*

### 1. Description of the Agency

**Authorizing Legislation and Organization** – The New Jersey Housing and Mortgage Finance Agency (the “Agency”), which is established in, but not part of, the Department of Community Affairs, is a body, corporate and politic, created by the New Jersey Housing and Mortgage Finance Agency Law of 1983, constituting Chapter 530, Laws of New Jersey, 1983 (the “Act”), which combined the New Jersey Housing Finance Agency and the New Jersey Mortgage Finance Agency into a single agency.

The initial legislation and subsequent amendment grant the Agency the power to issue debt to finance the construction and rehabilitation of housing projects for families of low and moderate income by providing mortgage loans to qualified housing sponsors or to increase the funds available for residential mortgage and rehabilitation or improvement loans. In addition, the Agency is authorized to make loans to boarding home operators for life safety improvements.

The Agency is governed by nine members: the Commissioner of the Department of Community Affairs who serves as Chair, the State Treasurer, the Attorney General, the Commissioner of Banking and Insurance, and the Commissioner of the Department of Human Services who are members of the New Jersey Housing and Mortgage Finance Agency ex officio, and four persons appointed by the Governor with the advice and consent of the State Senate for terms of three years.

Certain bonds and other obligations issued under the provisions of the Act are general obligations of the Agency to which its full faith and credit are pledged. Certain mortgages issued from the proceeds of Multi-Family Housing Revenue Bonds are insured by the Federal Housing Administration. The Agency has no taxing power; however, certain bonds issued are separately secured, special and limited obligations of the Agency. See Note 10 to the financial statements for a more detailed discussion of the Agency’s bonds, notes and obligations.

**Federal Subsidy Programs** – Many of the Agency-financed Multi-Family Housing projects (the “projects”) have entered into subsidy contracts with the U.S. Department of Housing and Urban Development (“HUD”) under Section 236 of the National Housing Act, as amended, or under Section 8 of the United States Housing Act of 1937, as amended (see Note 6). The subsidies, paid to the Agency for the account of the respective projects, have been pledged, under the terms of the bond resolutions, for the security of the bondholders.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 1. Description of the Agency (continued)

The Section 8 program provides for payment of housing assistance payments to or for the account of the owners of projects assisted under such program. The housing assistance payments represent the difference between the total contract rents (an average of 141% of fair market rents as determined by HUD) for such developments and the eligible tenants' rental payments, which are up to 30% of each such tenant's adjusted income. The housing assistance payments, as adjusted from time to time by HUD to reflect changing economic conditions and subject to the limitations of the Section 8 program, together with the tenants' rental payments, are used to pay all operating costs of the project and debt service on the project's mortgage.

The Section 8 Housing Assistance Payments ("HAP") received by the projects amounted to approximately \$392,061 and \$385,244 for the years ended December 31, 2009 and 2008, respectively.

The Section 236 program provides for interest reductions on mortgages of projects assisted under the program. HUD subsidizes the difference between the actual amortization schedule on the mortgages and an amortization schedule based upon a 1% interest rate. Several Section 236 projects also receive additional rental assistance for eligible tenants. The payments represent the difference between contract rent (as defined above) and the tenants' eligible rental payments.

The Section 236 Interest Reduction Payments ("IRP") received by the Agency amounted to approximately \$18,568 and \$18,642 for the years ended December 31, 2009 and 2008, respectively.

### 2. Reporting Entity

**Component Unit** – The Agency is a component unit of the State of New Jersey as described in Government Auditing Standards Board Statement ("GASB") No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These financial statements are discretely presented as part of the State's financial statements.

**Discretely Presented Component Units** – Discretely presented component units are entities which are legally separate from the Agency, but are financially accountable to the Agency, or whose relationship with the Agency is such that exclusion would cause the Agency's financial statements to be misleading or incomplete. GASB Statement No. 14, as amended by GASB Statement No. 39 also provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **2. Reporting Entity (continued)**

entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39. The component units' columns in the financial statements include the financial data of the component units of the Agency. They are reported in separate columns. Because of the nature of the services they provide and the Agency's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39.

#### *STAR*

On April 29, 1996, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the Statewide Acquisition and Redevelopment Corporation ("STAR"). The Board of Trustees and the officers of STAR are Agency employees. The Agency Board has authorized STAR to act as interim owner of certain multi-family projects including Amity Village I and II and Phase II of the Scattered Site AIDS Program

STAR was formed to act as a housing service corporation to purchase, finance, own, operate, maintain, develop, rehabilitate, construct, transfer, or resell properties under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency, particularly any project or program where the Agency administers Section 8 or other federal subsidies.

#### *ABC*

On April 17, 1997, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the A Better Camden Corporation ("ABC"). The Board consists of four State Directors and three Camden Directors as follows: The Commissioner of the New Jersey Department of Community Affairs, ex officio, or his or her designee; the Executive Director of the Agency, ex officio, or his or her designee; two employees of the Agency appointed by, and serving at the pleasure of the Executive Director of the Agency; the Mayor of the City of Camden, ex officio, or his or her designee; the Executive Director of the Camden Redevelopment Agency, ex officio, or his or her designee; and one resident of Camden appointed by a majority of the other directors to serve for a term of two years. ABC was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in Camden, particularly for persons of low and moderate income.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **2. Reporting Entity (continued)**

Separate financial statements are issued for each of the component units and can be obtained by contacting the New Jersey Housing and Mortgage Finance Agency, 637 South Clinton Avenue, P.O. Box 18550, Trenton, New Jersey 08650-2085.

### **3. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the Agency and its component units are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Operating costs and expenses are charged to expense as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the GASB. GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, was issued to give guidance in determining Generally Accepted Accounting Principles (“GAAP”) for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (“FASB”) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements after that date.

The Agency has elected not to follow any FASB pronouncements issued after November 30, 1989.

#### **Recently Adopted Accounting Standards**

At January 1, 2008, the Agency adopted the following statement issued by the GASB.

*GASB Statement No. 49 (“GASB 49”) Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November 2006. This Statement identifies the circumstances under which a governmental entity would be required to report a liability related

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **3. Summary of Significant Accounting Policies (continued)**

to pollution remediation. According to GASB 49, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem.
- A government has violated a pollution prevention-related permit or license.
- Either a regulator has identified or evidence indicates a regulator will identify a government as responsible or potentially responsible for cleaning up pollution, or paying all or some of the cost of the clean up.
- A government is named in a lawsuit, or evidence that it will be, to compel it to address the pollution.
- A government begins to clean up pollution or conducts related activities, or the government legally obligates itself to do so.

The adoption of this standard did not have an impact on the Agency's financial statements.

### **Accounting Standards Issued But Not Yet Adopted**

*GASB Statement No. 53 ("GASB 53"), Accounting and Financial Reporting for Derivative Instruments*, was issued in June 2008. GASB No. 53, which establishes accounting and reporting requirements for derivative instruments, is effective for the Agency's 2010 calendar year. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The Agency is in the process of evaluating the impact of the adoption of GASB No. 53 on its financial statements.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 3. Summary of Significant Accounting Policies (continued)

#### Descriptions of Funds

The accounts of the Agency are organized on the basis of separate enterprise funds, each of which is considered to be a separate accounting entity with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. Within each fund there are accounts required by the respective bond resolutions.

**General Fund** – The General Fund is utilized to record transactions which are not directly related to a specific bond resolution. All Agency expenses are recorded in this fund except provisions for potential loan losses, and specific program expenses which are charged to the loan-related funds.

**Multi-Family Program** – The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs. Assets under the bond resolution are restricted and are not available for any other purpose other than as provided.

**Single Family Program** – The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single-family residences for persons and families of low and moderate income. Assets under the bond resolution are restricted and are not available for any other purpose other than as provided.

The financial statements include the accounts of the Agency, STAR and ABC. All significant interfund accounts and transactions have been eliminated.

#### Cash and Cash Equivalents

Cash equivalents are considered highly liquid investments with a maturity of three months or less when purchased and include short-term highly liquid money market funds, overnight repurchase agreements and amounts held in a tax-free cash management fund, all of which are readily convertible to known amounts of cash.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 3. Summary of Significant Accounting Policies (continued)

#### Investments

Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Therefore, United States Government and Agency securities, asset-backed securities, corporate notes and commercial paper are reported at fair value. The Agency's investment agreements are reported at an amount equal to principal and accrued interest.

#### Capital Assets and Related Depreciation

The Agency capitalizes all assets greater than \$500 at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets as follows:

| <u>Asset Class</u>                  | <u>Useful Lives</u> |
|-------------------------------------|---------------------|
| Buildings and building improvements | 25                  |
| Automobiles                         | 4                   |
| Machinery and equipment             | 4-10                |
| Furniture and equipment             | 5                   |

Expenses for maintenance and repairs are charged to operating expenses. Renewals and betterments are capitalized. At the time properties are retired or otherwise disposed of, their cost and related accumulated depreciation are eliminated from the accounts and the gains or losses from such disposals are credited or charged to operations.

#### Funds and Deposits Held for Projects

Certain funds and deposits are held by the Agency's General Fund for projects in interest-bearing accounts. Such interest accrues to the benefit of the projects and is not recorded as Agency revenue.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **3. Summary of Significant Accounting Policies (continued)**

#### **Debt Issuance Costs, Bond Discount and other Bond Related Costs**

Debt issuance costs are deferred and amortized over the life of the related bonds using a straight line method. Discount and premium on bonds are deferred and amortized to interest expense using a method approximating the effective interest method. Deferred bond refunding costs are amortized over the shorter of the life of the refunding bonds or the refunded bonds.

#### **Operations**

Fees and charges income in the Multi-Family Housing Component includes an annual servicing fee on the mortgages, which generally range from zero to 0.65 of 1% of the original mortgage. These fees are amortized into income over the lives of the loans by the use of a method that approximates the level yield method and accrued as due monthly.

The Housing Finance Fund requirements receivable represents fees and charges due, but not collected, from projects originally funded under the Multi-Family General Housing Loan Bond Resolutions. The fees and charges are due over the life of the bonds to fund the Housing Finance Fund requirements related to these bond resolutions. The housing finance fees past due have been recorded as receivables with revenues offset by reserves until they are collected.

The Agency periodically reviews its mortgage loans receivable, debt service arrears receivables, supplemental mortgages and other loans and provides for possible losses. Loans are considered delinquent when principal and interest payments are 30 days past due.

#### **Mortgage Loans**

Mortgage loans are stated at principal amounts outstanding, net of unearned discount. Interest income on first mortgage loans is accrued and credited to interest income as earned. Loan origination costs and commitment fees are deferred and recognized over the life of the mortgage

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **3. Summary of Significant Accounting Policies (continued)**

loan as an adjustment to the loan's yield. The Agency is involved in foreclosure proceedings relating to both single and multi-family mortgages. For single-family mortgages, the Agency allows its outside servicers to represent them in Agency-approved foreclosure proceedings. The Agency enacts foreclosure proceedings against Multi-Family loans at the direction of its executive director with the approval of the Agency's Board. The Agency is the first lien holder for all supplemental mortgages. Interest income on supplemental mortgages is not accrued, but is credited to income as collected.

#### **Allowance for Loan Losses**

Certain projects have not generated sufficient cash flow to meet both operating expenses and debt service payments as a result of delays in attaining full occupancy levels, rising operating costs, or a combination thereof. The Agency has developed programs designed to provide adequate cash flow for these projects by obtaining additional rental assistance subsidies from HUD, rent increases, additional contributions by limited-dividend sponsors, the State of New Jersey Bond and Housing Assistance Funds and the Agency's General Fund. The Agency has provided allowances for loan losses aggregating \$346,644 and \$304,140 as of December 31, 2009 and 2008, respectively, against mortgage loans receivable, debt service arrears receivable, supplemental mortgages, other loans, and fees and charges including provision for negative cash flows and cost overruns for these projects. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of the loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. Economic conditions may result in the necessity to change the allowance quickly in order to react to deteriorating financial conditions of the Agency's borrowers. As a result, additional provisions on existing loans may be required in the future if borrowers' financial conditions deteriorate or if real estate values decline.

#### **Advances from the State of New Jersey for Bond and Housing Assistance**

Pursuant to the provisions of agreements with the State of New Jersey Department of Community Affairs, the Agency has received funds from the 1968 and 1976 State of New Jersey General Obligation Bond Assistance Funds. These funds have been pledged as security for the bonds of certain bond resolutions and to provide supplemental financing to certain housing projects (see Note 8).

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **3. Summary of Significant Accounting Policies (continued)**

#### **Advances from the State of New Jersey for Affordable Housing**

Pursuant to the provisions of an agreement with the State of New Jersey Department of Community Affairs, the Agency has received funds to facilitate the building of low income projects. The amount advanced was \$3,081 as of December 31, 2009 and 2008.

#### **Minimum Escrow Requirement**

In accordance with the bond resolutions and/or deed and regulatory agreements, substantially all permanently financed projects are required to deposit with the Agency one month's principal and interest on their mortgage loans as security against the late payment of subsequent remittances.

#### **Net Assets**

Net assets comprise the excess of revenues over expenses from operating income, non-operating revenues, expenses and capital contributions. Net assets are classified in the following three components:

*Invested in Capital Assets, Net of Related Debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

*Restricted* – Net assets are reported as restricted when constraints placed on net asset use either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This component includes net assets that may be designated for specific purposes by the Board.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first and unrestricted resources as needed.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **3. Summary of Significant Accounting Policies (continued)**

#### **Operating and Non-Operating Revenues and Expenses**

Operating revenues consist primarily of all revenues derived from interest income on mortgage loans, fees and charges on mortgages and loans issued and gains on the sale of real estate owned. Investment income, which consists of interest income earned on various interest-bearing accounts and on investments in debt securities is reported as non-operating revenues.

Operating expenses include general and administrative expenses of the Agency; salaries and benefits; costs and expenses incurred in connection with the amortization, issuance and sale of certain bonds and notes; fees and expenses of trustees and depository and paying agents; and other costs associated with the Agency's various loan programs. Non-operating expenses principally include loss on early extinguishment of debt.

#### **Interest Rate Swaps**

The Agency enters into various interest rate swaps in order to manage risks associated with interest on its bond portfolio. As currently allowable under accounting principles generally accepted in the United States, the Agency does not record the fair value or changes in fair value of interest rate swaps on the face of its financial statements. See Note 22 for relevant disclosures.

#### **Tax Status**

The Agency is exempt from federal income taxes under the Internal Revenue Code Section 115 and from state income taxes under N.J.S.A. 27-25-16. Accordingly, no provision is recorded for federal and state income taxes.

#### **Reclassifications**

Certain reclassifications have been made to prior year balances in order to conform to current year presentation.

### **4. Early Extinguishment of Debt**

During the years ended December 31, 2009 and 2008, as a result of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately \$104,465 and \$72,175. Net losses of \$439

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **4. Early Extinguishment of Debt (continued)**

and \$321 for the years ended December 31, 2009 and 2008 on early extinguishment of debt have been recorded as a non-operating expense. These losses arise as a result of immediate recognition of deferred bond issuance costs, bond discounts that would have been amortized over the life of the applicable bond issues had they not been retired, and call premiums as required by the bond resolutions.

### **5. Investments and Deposits**

#### **Investment Policy – Agency General Fund**

The Agency has established an investment policy, which pertains to assets of the Agency, such as the General Fund assets, which are held outside of the Agency's Bond Resolutions. The primary investment objectives of the Agency's investment activities are to preserve principal, meet liquidity needs, further purposes of the Agency and provide a suitable return in relationship to current market conditions and the established investment policy. The Agency's investment policy includes guidelines as to liquidity and duration, eligible investments, concentration limits, credit quality and currency. The Agency's General Fund cash and equivalents are managed by BlackRock pursuant to an agreement between the Agency and BlackRock. BlackRock has been instructed to follow the Agency's aforementioned investment policy.

The investment policy permits investments in obligations issued by U.S. Treasury or guaranteed by the U.S. government as well as obligations issued by or guaranteed by U.S. federal agencies, commercial paper, repurchase agreements having maximum maturities of seven days or less that and which are fully collateralized by U.S. government and/or agency securities, money market mutual funds and commercial bank obligations including time deposits, bank notes and bankers' acceptances, certain triple-A rated asset-backed and mortgage-backed securities, highly rated corporate bonds and bond obligations of the Agency.

#### **Investment Policy – Bond Resolutions**

The Agency's Single Family and Multi Family Bond Resolutions govern the investment of assets and funds held under the Resolutions and, as such, establish permitted investments in which funds held under the Resolutions may be invested. The Agency currently has two Single Family Bond Resolutions and four Multi-Family Resolutions, all of which govern the types of investments in which moneys held under each resolution may be invested. Generally, the

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **5. Investments and Deposits (continued)**

Agency's Bond Resolutions permit the deposit of funds with commercial banks and the investment of funds in, time deposits and certificates of deposits, U.S. government obligations, obligations of certain U.S. Government Agencies or obligations that are guaranteed by the U.S. Government. Additionally, certain of the Agency's Resolutions also permit the investment in money market funds with stipulated rating and maturity levels, as well as repurchase agreements, certain federal funds, commercial paper, bankers acceptances and funds of which the N.J. treasurer is custodian.

#### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency has no formal policy as to custodial credit risk as to cash and equivalents held outside of its Bond Resolutions. Certain of the Agency's Bond Resolutions have varying provisions which relate to custodial credit risk including requirements that certain moneys and certain deposits of funds held under Resolutions be insured by federal deposit insurance or collateralized or secured by the U.S. government, or U.S. government agency obligations. In some cases, the Trustee or paying agent is excluded from these requirements related to funds held by them in trust. In some cases certain of the Agency's Bond Resolutions require that the holders (banks and other entities) of certain deposits have certain minimum long-term or short-term credit rating levels. All funds are deposited in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA").

As of December 31, 2009, the Agency's deposits amounted to \$69,783, of which \$56,622 was uninsured and uncollateralized.

#### *New Jersey Cash Management Fund and Merrill Lynch Cash Management Fund*

During the year, the Agency invested certain funds in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Investments with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The Fund does not have a credit rating. The Agency also utilizes Merrill Lynch Cash Management Funds for certain project escrow accounts. These funds are invested in

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **5. Investments and Deposits (continued)**

government securities and NJ municipal securities. At December 31, 2009 and 2008, the Agency's investment in Cash Management Funds amounted to \$773,133 and \$764,319, respectively.

#### *Investment Type and Interest Rate Risk Disclosure*

The Agency holds various investments, outside of the Bond Resolutions, within the Agency's General Fund. As discussed, these investments are currently managed by BlackRock. In addition to the eligible investments permitted by the Agency's Investment Policy discussed above, the aforementioned Investment Policy also permits corporate bonds, notes and medium term notes.

Also permitted are asset backed securities, mortgage backed securities and collateralized mortgage obligations, however, these securities must be rated triple A by at least one of the national rating agencies. Equity investments in project-specific housing and housing-related developments which further the purposes of the Agency are also permitted with approval from the Agency Board. However, these investments may not exceed \$10 million. Further, excluding the aforementioned equity investments, the Agency's Investment Policy indicates that the average effective duration of the portfolio is not to exceed 2.5 years and the maximum effective duration of any individual security is not to exceed 6 years.

In addition to those investments discussed above, certain of the Agency's Bond Resolutions also permit guaranteed investment contracts or investment agreements, obligations or notes of certain U.S. government agencies which are not backed by the U.S. government, certain short-term and long-term debt providing the issuers fall within permissible rating categories, direct and general obligations of the State of New Jersey guaranteed by the State, obligations of states and municipalities which are fully secured by contributions contracts with the U.S. government, certain stripped U.S. Treasury securities, shares of open-end, diversified investment companies having certain minimum credit ratings and Federal Housing Administration debentures.

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's investment policy as to moneys held outside the bond resolutions does impose concentration limits on certain types of investments which may limit the Agency's exposure to market interest rate risk. Certain investment types may evidence varying sensitivity to

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 5. Investments and Deposits (continued)

changes in interest rates. Corporate Bonds and notes and Medium term Notes may not exceed 50% of the aggregate market value of the portfolio. Asset Backed Securities may not exceed 30% of the aggregate market value of the portfolio and mortgage backed securities and collateralized mortgage obligations may not exceed 30% of the aggregate market value of the portfolio.

The average effective duration of the General Fund investment portfolio is not to exceed 2.5 years.

Within the Agency's Bond Resolutions, the Agency generally manages overall exposure to interest rate risk by the use of derivative instruments. In this regard, the Agency has utilized both interest rate swap agreements and interest rate cap agreements within the Multi-Family Revenue Bond Resolution, the Multi-Family Housing Revenue Bond Resolution and the Single Family Housing Revenue Bond Resolution. For a further discussion of the Agency's use of derivatives, please refer to Note 22 – Derivatives.

As of December 31, 2009 and 2008, the Agency had the following investments, maturities and credit quality.

| Investment Type                                       | Fair Value        |                   | Weighted-Average Maturity (years) | Credit Ratings |             |
|-------------------------------------------------------|-------------------|-------------------|-----------------------------------|----------------|-------------|
|                                                       | December 31, 2009 | December 31, 2008 |                                   | S&P            | Moody's     |
| Guaranteed Investment Contracts                       | \$ 174,560        | \$ 233,011        | 23.00                             | Unrated        | Unrated     |
| U.S. Treasury Securities                              | 72,056            | 106,006           | 2.34                              | AAA            | Aaa         |
| Federal Agency Notes                                  | 2,979             | 3,584             | 22.55                             | AAA            | Aaa         |
| U.S. Government and Agency-Backed Securities          | 73,880            | 89,972            | 2.39                              | AAA            | Aaa         |
| Non-Agency Mortgage-Backed Securities                 | 6,960             | 10,271            | 1.51                              | AAA            | Aaa         |
| Commercial Paper                                      | –                 | 2,049             | N/A                               | A-1+           | P-1         |
| Asset Backed Securities                               | 14,928            | 12,977            | 1.04                              | AAA            | Aaa         |
| Corporate Notes                                       | 121,701           | 73,221            | 2.29                              | AAA to A-      | Aaa to Baa1 |
| New Jersey Cash Management Fund and Merrill Lynch CMA | 772,710           | 764,319           | N/A                               | Unrated        | Unrated     |
| Municipal Bonds                                       | 19,430            | –                 | 38.33                             | A+             | Unrated     |
| Other Short-Term Instruments                          | 1,144             | 1,596             | .60                               | Unrated        | Unrated     |
| Subtotal                                              | 1,260,348         | 1,297,006         |                                   |                |             |
| Less amount reported as cash equivalents              | (772,710)         | (764,319)         |                                   |                |             |
| Total investments                                     | \$ 487,638        | \$ 532,687        |                                   |                |             |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **5. Investments and Deposits (continued)**

#### *Credit Risk*

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Agency's investment policy specifies minimum rating levels for certain types of eligible investments. Asset backed securities, mortgage backed securities and collateralized mortgage obligations must have a minimum rating of triple A. Further, the minimum short-term debt rating of money market instruments or other instruments with maturities of less than one year is Tier Two while the minimum long-term debt rating for all other instruments, excluding the permitted equity investments, is single A.

The Agency's Bond Resolutions establish varying minimum rating levels for different types of investments. Generally, commercial paper must be rated in the highest rating category or A-1 / P-1 and money market funds must be rated in the highest rating category or in some cases must be rated at least the unenhanced rating on the bonds. Also, certain resolutions require that certain deposits or various short-term investments or cash equivalents may only be held by providers in either the highest or two highest rating categories. In some cases, certain debt obligations and state obligations must be rated in either the highest or the two highest rating categories. The Agency's guaranteed investment contracts which are permitted by certain of the Agency's Bond Resolutions are not rated, however, the Bond Resolutions which allow guaranteed investment contracts require either that the provider of such contracts have either a long-term rating of double A or in some cases A-1 if the agreement term is less than one year or be rated within the two highest credit rating categories by two national credit rating agencies, must not affect the rating of the bonds or must be rated at least the unenhanced rating on the bonds.

On December 5, 2008, certain Single Family guaranteed investment contracts (GICs) with Natixis Funding Corp. and IXIS Funding Corp. were collateralized. The value of the collateralized investments at December 31, 2009 and 2008 was \$38,421 and \$29,084, respectively.

#### *Concentration of Credit Risk*

The Agency's aforementioned investment policy does place limits on the amounts that may be invested in any one issuer relating to certain types of investments. There are no concentration limits on obligations of the U.S. government and U.S. federal agencies however, obligations of all other issuers are limited such that those with any one issuer may not exceed 5% of the aggregate market value of the portfolio.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 5. Investments and Deposits (continued)

The following table shows investments in issuers that represent 5 percent or more of total investments at December 31, 2009:

| Issuer                                 | December 31, 2009 |       |
|----------------------------------------|-------------------|-------|
| NATIXIS Funding Corporation            | \$105,381         | 21.6% |
| GE Capital Corporation                 | 28,220            | 5.8   |
| Federal Home Loan Mortgage Corporation | 24,188            | 5.0   |

The Agency also purchases U.S. Government securities from certain financial institutions under agreements whereby the seller has agreed to repurchase the securities at cost plus accrued interest. During the years ended December 31, 2009 and 2008, the Agency did not invest in any repurchase agreements.

Pursuant to most bond resolutions, the Agency is required to maintain certain invested debt service reserves with the Trustees to fund potential deficiencies in principal and interest required to be paid in succeeding fiscal years. These debt service reserve investments for the Multi-Family Component (funded by bond proceeds) are included in the investment balances above and aggregate a fair value of approximately \$29,926 and \$42,761 as of December 31, 2009 and 2008, respectively. The debt service reserve for several of the Multi-Family issues is called the Housing Finance Fund. The debt service reserve investments for the Single-Family Component (funded by bond proceeds or contributed cash) are included above and aggregate a fair value of approximately \$30,766 and \$28,179 as of December 31, 2009 and 2008, respectively. In addition to the above investments, the debt service reserves may be satisfied with a Surety Bond issued by a qualified insurer. The Multi-Family component had \$69,588 and \$71,319 and the Single-Family component had \$2,360 and \$8,324 of Surety Bonds outstanding as of December 31, 2009 and 2008, respectively.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 5. Investments and Deposits (continued)

#### Investment Income

Investment income is comprised of the following elements described below:

*Interest Income* – is the return on the original principal amount invested and the amortization of premium/discount on short-term investments.

*Unrealized Gain (Loss) on Investments* – takes into account all changes in fair value that occurred during the year.

The Agency's investment income for the years ended December 31, 2009 and 2008 is:

|                                       | 2009             | 2008             |
|---------------------------------------|------------------|------------------|
| Interest income on investments        | \$ 27,296        | \$ 30,931        |
| Unrealized (loss) gain on investments | (23)             | 3,663            |
|                                       | <u>\$ 27,273</u> | <u>\$ 34,594</u> |

### 6. Mortgage Loans Receivable

#### Single-Family Mortgage Component

Mortgage loans held by the Single-Family Mortgage Component of the Agency have stated interest rates and are secured by first liens on the related real property. The outstanding balances by type of loan as of December 31, 2009 and 2008 are as follows:

|                              | December 31<br>2009 | 2008                |
|------------------------------|---------------------|---------------------|
| Mortgage loans receivable    | \$ 1,335,989        | \$ 1,333,494        |
| Unearned discounts – net     | –                   | (26)                |
| Loan origination costs – net | 22,743              | 22,440              |
| Commitment fees – net        | (1,982)             | (2,527)             |
| Allowance for loan losses    | (6,155)             | (6,892)             |
| Mortgage receivable – net    | <u>1,350,595</u>    | <u>1,346,489</u>    |
| Less current portion         | (27,654)            | (26,648)            |
| Long term portion            | <u>\$ 1,322,941</u> | <u>\$ 1,319,841</u> |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 6. Mortgage Loans Receivable (continued)

#### Multi-Family Housing Component

The Multi-Family Housing Component of the Agency's mortgage loans receivable as of December 31, 2009 and 2008 consisted of the following:

|                                                                                                 | <b>December 31</b>  |              |
|-------------------------------------------------------------------------------------------------|---------------------|--------------|
|                                                                                                 | <b>2009</b>         | <b>2008</b>  |
| Mortgage loans subject to subsidy contracts under<br>Section 8 of the United States Housing Act | <b>\$ 188,408</b>   | \$ 223,759   |
| Mortgage loans subject to subsidy contracts under<br>Section 236 of the National Housing Act    | <b>220,617</b>      | 228,331      |
| Unsubsidized mortgage loans                                                                     | <b>842,714</b>      | 758,769      |
| Subtotal                                                                                        | <b>1,251,739</b>    | 1,210,859    |
| Allowance for loan losses                                                                       | <b>(87,051)</b>     | (77,570)     |
| Undisbursed mortgage loans                                                                      | <b>(21,113)</b>     | (972)        |
| Mortgage receivable – net                                                                       | <b>1,143,575</b>    | 1,132,317    |
| Less current portion                                                                            | <b>(89,895)</b>     | (77,986)     |
| Long term portion                                                                               | <b>\$ 1,053,680</b> | \$ 1,054,331 |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 6. Mortgage Loans Receivable (continued)

#### General Fund Component

The General Fund mortgage loans receivable as of December 31, 2009 and 2008 consisted of the following:

|                                                                                                 | <b>December 31</b> |             |
|-------------------------------------------------------------------------------------------------|--------------------|-------------|
|                                                                                                 | <b>2009</b>        | <b>2008</b> |
| Mortgage loans subject to subsidy contracts under<br>Section 8 of the United States Housing Act | \$ 20,157          | \$ 21,550   |
| Mortgage loans subject to subsidy contracts under<br>Section 236 of the National Housing Act    | 25,080             | 28,194      |
| Unsubsidized mortgage loans                                                                     | 196,517            | 176,325     |
| Unearned discounts – net                                                                        | (61)               | (65)        |
| Loan origination costs – net                                                                    | 93                 | 82          |
| Subtotal                                                                                        | 241,786            | 226,086     |
| Allowance for loan losses                                                                       | (60,931)           | (55,619)    |
| Advanced (undisbursed) mortgage proceeds                                                        | 1,598              | (5,423)     |
| Mortgage receivable – net                                                                       | 182,453            | 165,044     |
| Less current portion                                                                            | (5,244)            | (4,584)     |
| Long term portion                                                                               | \$ 177,209         | \$ 160,460  |

The Multi-Family Housing Component mortgage loans are repayable over terms originally up to 48 years and bear interest at rates from 0% to 13% per annum. Substantially all mortgage loans receivable are collateralized by first mortgages on the property of the housing sponsors and contain exculpatory clauses with respect to the liability of the principals of such housing sponsors.

Construction advances made from the proceeds of the sale of bonds and obligations are recorded as mortgage loans receivable. These funds are disbursed for construction costs, interest, carrying fees, working capital advances and other project-related expenses. Upon substantial completion and occupancy of the project, amortization of the loan will commence.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **7. Debt Service Receivable**

Debt service arrears consist of mortgage principal, interest payments and fees in arrears on permanently financed loans, net of the allowance for loan losses as described in Note 2. The debt service arrears receivable was \$87,338 and \$84,226 at December 31, 2009 and 2008, respectively. The debt service allowance for loan losses was \$80,831 and \$78,586 as of December 31, 2009 and 2008, respectively. A subsidy payment receivable of \$1,553 and \$1,466 was due at December 31, 2009 and 2008, respectively.

The Agency requires FHA guarantees, VA insurance, private mortgage insurance, pool insurance and other features to increase the security of Single-Family mortgage loans depending on the individual bond resolution and individual mortgages.

For the Single-Family component, the Agency's allowance is based on historical loss percentages applied to all mortgage loan principal balances. Accrued interest in excess of 30 days is fully reserved. On home improvement loans, the Agency provides an allowance for 10% of the principal in arrears and all interest in arrears over 90 days not deemed reimbursable from FHA Title One Insurance.

For the Multi-Family Housing Component, the Agency's policy is to provide an allowance for substantially all interest receivable on first mortgage loans when interest payments become past due, except for Section 8 program loans for which no allowance is recorded. An allowance of approximately \$45,466 and \$40,825 against interest receivable was recorded at December 31, 2009 and 2008. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to \$308,595 and \$294,118 as of December 31, 2009 and 2008, respectively.

### **8. Supplemental Mortgages and Other Loans**

Certain projects have received supplemental mortgages and other loans from the Agency's General Fund and/or from the State of New Jersey Bond and Housing Assistance Funds. An allowance for loan losses has not been provided on supplemental mortgages funded from the State Bond and Housing Assistance Funds because the Agency is not obligated to repay the State until the projects repay the Agency.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 8. Supplemental Mortgages and Other Loans (continued)

#### General Fund Component

The General Fund supplemental mortgages and other loans receivable as of December 31, 2009 and 2008 consisted of the following:

|                                                                                              | December 31 |            |
|----------------------------------------------------------------------------------------------|-------------|------------|
|                                                                                              | 2009        | 2008       |
| Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act | \$ 844      | \$ 844     |
| Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act    | 6,719       | 5,404      |
| Agency supplemental mortgages                                                                | 214,977     | 212,972    |
| Special Needs Housing Trust Fund mortgages                                                   | 72,700      | 48,300     |
| HUD supplemental mortgages                                                                   | 881         | 881        |
| Loans to projects                                                                            | 16,370      | 16,470     |
| State of New Jersey supplemental mortgages                                                   | 15,516      | 12,488     |
| Other                                                                                        | 4,355       | 4,400      |
| Subtotal                                                                                     | 332,362     | 301,759    |
| Allowance for loan losses                                                                    | (27,083)    | (40,989)   |
| Allowance for Special Needs Housing Trust                                                    | (71,949)    | (46,289)   |
| Undisbursed supplemental mortgage proceeds                                                   | (10,905)    | (9,066)    |
| Supplemental mortgages and other loans receivable, net                                       | 222,425     | 205,415    |
| Less current portion                                                                         | —           | (5,641)    |
| Long-term portion                                                                            | \$ 222,425  | \$ 199,774 |

#### Multi Family Housing Component

The Multi-Family Housing Component of the Agency's supplemental mortgage receivable and other loans as of December 31, 2009 and 2008 consisted of the following:

|                           | December 31 |           |
|---------------------------|-------------|-----------|
|                           | 2009        | 2008      |
| Supplemental mortgages    | \$ 72,942   | \$ 70,038 |
| Construction advances     | 385         | 3,591     |
| Subtotal                  | 73,327      | 73,629    |
| Allowance for loan losses | (12,643)    | (11,791)  |
| Long term portion         | \$ 60,684   | \$ 61,838 |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 8. Supplemental Mortgages and Other Loans (continued)

#### Single-Family Housing Component

The Single-Family Housing Component of the Agency's supplemental mortgage receivable was \$24,753 and \$24,133 as of December 31, 2009 and 2008, respectively.

### 9. Capital Assets

Capital assets are summarized as follows:

|                                    | Balance<br>Dec 31, 2008 | Additions | Deletions | Balance<br>Dec 31, 2009 |
|------------------------------------|-------------------------|-----------|-----------|-------------------------|
| Non-depreciable capital assets:    |                         |           |           |                         |
| Land                               | \$ 1,225                | \$ —      | \$ —      | \$ 1,225                |
| Depreciable capital assets:        |                         |           |           |                         |
| Building and building improvements | 22,487                  | 340       | —         | 22,827                  |
| Motor vehicles                     | 471                     | 92        | —         | 563                     |
| Machinery and equipment            | 5,528                   | 170       | (61)      | 5,637                   |
| Furniture and fixtures             | 359                     | 24        | —         | 383                     |
| Total                              | 28,845                  | 626       | (61)      | 29,410                  |
| Less accumulated depreciation:     |                         |           |           |                         |
| Building and building improvements | (12,480)                | (665)     | —         | (13,145)                |
| Motor vehicles                     | (394)                   | (33)      | —         | (427)                   |
| Machinery and equipment            | (4,429)                 | (364)     | 61        | (4,732)                 |
| Furniture and fixtures             | (274)                   | (30)      | —         | (304)                   |
| Total                              | (17,577)                | (1,092)   | 61        | (18,608)                |
| Total capital assets, net          | \$ 12,493               | \$ (466)  | \$ —      | \$ 12,027               |

|                                    | Balance<br>Dec 31, 2007 | Additions | Deletions | Balance<br>Dec 31, 2008 |
|------------------------------------|-------------------------|-----------|-----------|-------------------------|
| Non-depreciable capital assets:    |                         |           |           |                         |
| Land                               | \$ 1,225                | \$ —      | \$ —      | \$ 1,225                |
| Depreciable capital assets:        |                         |           |           |                         |
| Building and building improvements | 21,250                  | 1,237     | —         | 22,487                  |
| Motor vehicles                     | 521                     | 61        | (111)     | 471                     |
| Machinery and equipment            | 5,354                   | 220       | (46)      | 5,528                   |
| Furniture and fixtures             | 347                     | 12        | —         | 359                     |
| Total                              | 27,472                  | 1,530     | (157)     | 28,845                  |
| Less accumulated depreciation:     |                         |           |           |                         |
| Building and building improvements | (11,840)                | (640)     | —         | (12,480)                |
| Motor vehicles                     | (453)                   | (52)      | 111       | (394)                   |
| Machinery and equipment            | (3,995)                 | (480)     | 46        | (4,429)                 |
| Furniture and fixtures             | (244)                   | (30)      | —         | (274)                   |
| Total                              | (16,532)                | (1,202)   | 157       | (17,577)                |
| Total capital assets, net          | \$ 12,165               | \$ 328    | \$ —      | \$ 12,493               |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 9. Capital Assets (continued)

Depreciation expense was \$1,092 and \$1,202 for the years ended December 31, 2009 and 2008, respectively.

### 10. Bonds and Obligations

The Agency obtains funds to finance its various mortgage programs through the sale of bonds and other obligations. Interest on Agency bonds and obligations is generally payable monthly, quarterly or semiannually. Generally, bond principal is due in annual or semiannual installments. Term bonds are subject to redemption by application of sinking fund installments. Pursuant to the related bond and obligation resolutions, the Agency has authorized and issued as of December 31, 2009 the following bonds and obligations:

| Description of Bonds as Issued                   | Bonds<br>Outstanding<br>December 31,<br>2008 | Issued | Matured/<br>Called/<br>Redeemed | Bonds<br>Outstanding<br>December 31,<br>2009 | Amount Due<br>Within One<br>Year |
|--------------------------------------------------|----------------------------------------------|--------|---------------------------------|----------------------------------------------|----------------------------------|
| <b>Single Family</b>                             |                                              |        |                                 |                                              |                                  |
| Home Buyer Revenue Bonds:                        |                                              |        |                                 |                                              |                                  |
| 1997 Series T, 4.90% to 5.60%, 2007 to 2017      | \$ 2,350                                     | \$ —   | \$ 2,350                        | \$ —                                         | \$ —                             |
| 1997 Series U, 4.90% to 5.85%, 2004 to 2029      | 52,865                                       | —      | 52,865                          | —                                            | —                                |
| 1998 Series V, 4.75% to 5.25%, 2009 to 2026      | 19,865                                       | —      | 19,865                          | —                                            | —                                |
| 1998 Series W, 4.30% to 4.75%, 2004 to 2017      | 4,415                                        | —      | 4,415                           | —                                            | —                                |
| 1998 Series X, 5.25% to 5.35%, 2012 to 2029      | 435                                          | —      | 435                             | —                                            | —                                |
| 1999 Series Z, 5.25% to 5.70%, 2010 to 2017      | 15,130                                       | —      | 15,130                          | —                                            | —                                |
| 1999 Series AA, 4.80% to 5.45%, 2004 to 2026     | 20,765                                       | —      | 20,765                          | —                                            | —                                |
| 2000 Series BB, 4.35% to 5.30%, 2004 to 2017     | 17,470                                       | —      | 2,565                           | 14,905                                       | 2,690                            |
| 2000 Series CC, 4.90% to 5.875%, 2017 to 2031    | 33,195                                       | —      | 905                             | 32,290                                       | —                                |
| 2003 Series FF, variable rate, 2009 to 2025      | 24,835                                       | —      | 3,405                           | 21,430                                       | —                                |
| Total Home Buyer Revenue Bonds                   | 191,325                                      | —      | 122,700                         | 68,625                                       | 2,690                            |
| Housing Revenue Bonds:                           |                                              |        |                                 |                                              |                                  |
| 2003 Series C, 1.65% to 5.00%, due 2005 to 2033  | 9,120                                        | —      | 4,610                           | 4,510                                        | 560                              |
| 2004 Series G, 1.60% to 4.25%, due 2005 to 2015  | 6,650                                        | —      | 3,290                           | 3,360                                        | 3,360                            |
| 2004 Series H, 3.95% to 5.25%, due 2011 to 2034  | 15,795                                       | —      | 3,630                           | 12,165                                       | —                                |
| 2004 Series I, variable rate, due 2025 to 2034   | 69,985                                       | —      | 1,030                           | 68,955                                       | 465                              |
| 2005 Series L, 2.625% to 4.35%, due 2006 to 2017 | 10,815                                       | —      | 890                             | 9,925                                        | 920                              |
| 2005 Series M, 4.87% to 5.00%, due 2026 to 2036  | 11,040                                       | —      | —                               | 11,040                                       | —                                |
| 2005 Series N, variable rate, due 2017           | 31,015                                       | —      | 4,780                           | 26,235                                       | 2,075                            |
| 2005 Series O, variable rate, due 2026 to 2031   | 79,950                                       | —      | —                               | 79,950                                       | —                                |
| 2005 Series P, variable rate, due 2008 to 2025   | 20,685                                       | —      | 1,585                           | 19,100                                       | 1,640                            |
| 2005 Series Q, variable rate, due 2010 to 2032   | 62,200                                       | —      | —                               | 62,200                                       | 895                              |
| 2005 Series R, variable rate, due 2031 to 2038   | 32,615                                       | —      | 4,545                           | 28,070                                       | —                                |
| 2007 Series S, 3.60% to 4.05%, due 2008 to 2017  | 48,845                                       | —      | 4,555                           | 44,290                                       | 4,785                            |
| 2007 Series T, 4.55% to 5.25%, due 2022 to 2047  | 137,795                                      | —      | 4,420                           | 133,375                                      | —                                |
| 2007 Series U, 3.60% to 5%, due 2008 to 2037     | 78,195                                       | —      | 885                             | 77,310                                       | 930                              |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 10. Bonds and Obligations (continued)

| Description of Bonds as Issued                                       | Bonds<br>Outstanding<br>December 31,<br>2008 | Issued  | Matured/<br>Called/<br>Redeemed | Bonds<br>Outstanding<br>December 31,<br>2009 | Amount Due<br>Within One<br>Year |
|----------------------------------------------------------------------|----------------------------------------------|---------|---------------------------------|----------------------------------------------|----------------------------------|
| <b>Single Family (continued)</b>                                     |                                              |         |                                 |                                              |                                  |
| Housing Revenue Bonds (continued):                                   |                                              |         |                                 |                                              |                                  |
| 2007 Series V, variable rate, due 2037                               | \$ 96,375                                    | \$ —    | \$ —                            | \$ 96,375                                    | \$ —                             |
| 2007 Series W, 5.27%, due 2032                                       | 47,480                                       | —       | 7,980                           | 39,500                                       | 2,560                            |
| 2008 Series X, 3.25% to 5.375%, due 2030                             | 75,225                                       | —       | 7,895                           | 67,330                                       | 2,310                            |
| 2008 Series Y, variable rate, due 2039                               | 78,130                                       | —       | —                               | 78,130                                       | —                                |
| 2008 Series Z, variable rate, due 2034                               | 37,580                                       | —       | —                               | 37,580                                       | —                                |
| 2008 Series AA, 3.00% to 6.50%, due 2038                             | 170,915                                      | —       | 5,910                           | 165,005                                      | 2,875                            |
| 2008 Series BB, variable rate, due 2039                              | 79,085                                       | —       | —                               | 79,085                                       | —                                |
| 2009 Series CC, .88% to 5.25%, due 2038                              | —                                            | 75,000  | —                               | 75,000                                       | 440                              |
| 2009 Series DD, .75% to 3.50%, due 2017                              | —                                            | 19,250  | —                               | 19,250                                       | 965                              |
| 2009 Series EE, 2.00% to 5.20%, due 2025                             | —                                            | 49,295  | —                               | 49,295                                       | 1,525                            |
| 2009 Series FF, 4.00% to 5.05%, due 2039                             | —                                            | 17,940  | —                               | 17,940                                       | —                                |
| 2009 Series GG, 1.00% to 5.00%, due 2039                             | —                                            | 25,000  | —                               | 25,000                                       | 235                              |
| Total Housing Revenue Bonds                                          | 1,199,495                                    | 186,485 | 56,005                          | 1,329,975                                    | 26,540                           |
| Total Single Family                                                  | 1,390,820                                    | 186,485 | 178,705                         | 1,398,600                                    | 29,230                           |
| Net premium on bonds payable                                         | 2,929                                        |         |                                 | 3,519                                        |                                  |
| Deferred bond refunding costs                                        | (554)                                        |         |                                 | (814)                                        |                                  |
| Total Single Family Bonds Payable (net)                              | 1,393,195                                    |         |                                 | 1,401,305                                    |                                  |
| <b>Multi Family</b>                                                  |                                              |         |                                 |                                              |                                  |
| General Housing Loan Bonds:                                          |                                              |         |                                 |                                              |                                  |
| 1970 Series A, 4.50%, due 2004 to 2019                               | 2,180                                        | —       | 155                             | 2,025                                        | 165                              |
| 1971 Series A, 5.35% to 5.40%, due 2004 to 2019                      | 14,370                                       | —       | 1,195                           | 13,175                                       | 1,270                            |
| 1972 Series A, 5.70% to 5.80%, due 2004 to 2013                      | 8,455                                        | —       | 5,475                           | 2,980                                        | 2,450                            |
| 1972 Series B, 5.20% to 5.25%, due 2004 to 2021                      | 22,025                                       | —       | 6,460                           | 15,565                                       | 1,615                            |
| Subtotal General Housing Loan Bonds                                  | 47,030                                       | —       | 13,285                          | 33,745                                       | 5,500                            |
| Multi-Family Housing Revenue:                                        |                                              |         |                                 |                                              |                                  |
| 1991 Series I, (Presidential Plaza) 6.50% to 7.00%, due 2004 to 2030 | 116,555                                      | —       | 2,560                           | 113,995                                      | 2,745                            |
| Multi-Family Housing Revenue Bonds                                   |                                              |         |                                 |                                              |                                  |
| 1995 Resolution:                                                     |                                              |         |                                 |                                              |                                  |
| 1997 Series A, 4.45% to 5.65%, due 2004 to 2040                      | 45,410                                       | —       | 635                             | 44,775                                       | 675                              |
| 1997 Series C, 6.47% to 7.42%, due 2004 to 2040                      | 5,515                                        | —       | 20                              | 5,495                                        | 40                               |
| 1999 Series A, 3.95% to 5.15%, due 2004 to 2030                      | 17,355                                       | —       | 445                             | 16,910                                       | 465                              |
| 1999 Series B, 3.85% to 4.70%, due 2004 to 2013                      | 725                                          | —       | 175                             | 550                                          | 180                              |
| 1999 Series C, 5.97% to 7.12%, due 2004 to 2030                      | 5,085                                        | —       | 110                             | 4,975                                        | 120                              |
| 2000 Series A1, 5.10% to 6.35%, due 2004 to 2032                     | 13,865                                       | —       | 290                             | 13,575                                       | 295                              |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 10. Bonds and Obligations (continued)

| Description of Bonds as Issued                      | Bonds<br>Outstanding<br>December 31,<br>2008 | Issued | Matured/<br>Called/<br>Redeemed | Bonds<br>Outstanding<br>December 31,<br>2009 | Amount Due<br>Within One<br>Year |
|-----------------------------------------------------|----------------------------------------------|--------|---------------------------------|----------------------------------------------|----------------------------------|
| <b>Multi Family (continued)</b>                     |                                              |        |                                 |                                              |                                  |
| Multi-Family Housing Revenue Bonds                  |                                              |        |                                 |                                              |                                  |
| 1995 Resolution (continued):                        |                                              |        |                                 |                                              |                                  |
| 2000 Series A2, 5.10% to 6.35%,<br>due 2004 to 2029 | \$ 2,550                                     | \$ —   | \$ 60                           | \$ 2,490                                     | \$ 65                            |
| 2000 Series B, 5.00% to 6.25%,<br>due 2004 to 2026  | 27,640                                       | —      | 1,930                           | 25,710                                       | 2,140                            |
| 2000 Series C1 8.38%, due 2004 to 2032              | 39,500                                       | —      | 595                             | 38,905                                       | 645                              |
| 2000 Series C2, variable rate, due 2004 to 2032     | 5,540                                        | —      | 80                              | 5,460                                        | 95                               |
| 2000 Series E1, 4.65% to 5.75%,<br>due 2004 to 2025 | 39,580                                       | —      | 3,350                           | 36,230                                       | 3,530                            |
| 2000 Series E2, 4.65% to 5.75%,<br>due 2004 to 2025 | 2,650                                        | —      | 125                             | 2,525                                        | 130                              |
| 2000 Series F, 7.93%, due 2004 to 2031              | 15,390                                       | —      | 250                             | 15,140                                       | 270                              |
| 2000 Series G, 4.65% to 5.35%,<br>due 2004 to 2013  | 1,475                                        | —      | 265                             | 1,210                                        | 280                              |
| 2001 Series A, 3.10% to 5.05%,<br>due 2004 to 2034  | 20,505                                       | —      | 1,570                           | 18,935                                       | 1,635                            |
| 2001 Series B, 6.64%, due 2004 to 2032              | 12,505                                       | —      | 245                             | 12,260                                       | 255                              |
| 2002 Series A, 2.40% to 4.25%,<br>due 2004 to 2010  | 7,750                                        | —      | 4,340                           | 3,410                                        | 3,410                            |
| 2002 Series B, variable rate, due 2004 to 2023      | 14,230                                       | —      | 675                             | 13,555                                       | 700                              |
| 2002 Series C, 2.90% to 4.95%,<br>due 2004 to 2015  | 28,365                                       | —      | 5,020                           | 23,345                                       | 5,245                            |
| 2002 Series D, 5.50%, due 2004 to 2022              | 1,540                                        | —      | 80                              | 1,460                                        | 90                               |
| 2002 Series E, 7.00%, due 2004 to 2022              | 3,540                                        | —      | 160                             | 3,380                                        | 170                              |
| 2002 Series F, 3.75% to 5.40%,<br>due 2004 to 2016  | 28,410                                       | —      | 10,135                          | 18,275                                       | 5,555                            |
| 2002 Series G, variable rate, due 2004 to 2025      | 5,260                                        | —      | 200                             | 5,060                                        | 215                              |
| 2003 Series A, 1.40% to 5.05%, due 2004 to<br>2044  | 28,480                                       | —      | 740                             | 27,740                                       | 770                              |
| 2003 Series C, 1.20% to 4.70%, due 2004 to<br>2033  | 3,360                                        | —      | 65                              | 3,295                                        | 70                               |
| 2004 Series A, 1.80% to 3.75%, due 2006 to<br>2014  | 12,100                                       | —      | 1,990                           | 10,110                                       | 2,135                            |
| 2004 Series D, 1.70% to 5.20%, due 2006 to<br>2046  | 22,265                                       | —      | 720                             | 21,545                                       | 750                              |
| 2008 Series 1, 5.75%, due 2038                      | 5,280                                        | —      | 570                             | 4,710                                        | 600                              |
| 2008 Series 2, variable rate, due 2046              | 6,490                                        | —      | —                               | 6,490                                        | —                                |
| 2008 Series 3, variable rate, due 2046              | 169,915                                      | —      | 1,125                           | 168,790                                      | 1,150                            |
| 2008 Series 4, variable rate, due 2037              | 22,865                                       | —      | 365                             | 22,500                                       | 425                              |
| Total                                               | 615,140                                      | —      | 36,330                          | 578,810                                      | 32,105                           |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 10. Bonds and Obligations (continued)

| Description of Bonds as Issued                   | Bonds<br>Outstanding<br>December<br>31, 2008 | Issued | Matured/<br>Called/<br>Redeemed | Bonds<br>Outstanding<br>December 31,<br>2009 | Amount Due<br>Within One<br>Year |
|--------------------------------------------------|----------------------------------------------|--------|---------------------------------|----------------------------------------------|----------------------------------|
| <b>Multi Family (continued)</b>                  |                                              |        |                                 |                                              |                                  |
| Multi-Family Housing Revenue Bonds               |                                              |        |                                 |                                              |                                  |
| 2005 Resolution:                                 |                                              |        |                                 |                                              |                                  |
| 2005 Series A1, 2.20% to 4.95%, due 2005 to 2046 | \$ 26,440                                    | \$ —   | \$ 3,665                        | \$ 22,775                                    | \$ 350                           |
| 2005 Series A2, 4.95%, due 2040 to 2046          | 5,000                                        | —      | 635                             | 4,365                                        | —                                |
| 2005 Series D, 2.00% to 4.70%, due 2005 to 2030  | 29,860                                       | —      | 1,455                           | 28,405                                       | 1,580                            |
| 2005 Series F, variable rate, due 2005 to 2040   | 12,995                                       | —      | 360                             | 12,635                                       | 375                              |
| 2005 Series G, variable rate, due 2007 to 2047   | 4,760                                        | —      | 50                              | 4,710                                        | 55                               |
| 2006 Series A, variable rate, due 2006 to 2028   | 23,050                                       | —      | 810                             | 22,240                                       | 840                              |
| 2006 Series B, variable rate, due 2006 to 2028   | 9,180                                        | —      | 1,065                           | 8,115                                        | 590                              |
| 2006 Series C, 4.90% to 5.00% due 2007 to 2026   | 5,125                                        | —      | 2,225                           | 2,900                                        | 55                               |
| 2006 Series E, 4.65% to 4.80%, due 2007 to 2036  | 5,145                                        | —      | 75                              | 5,070                                        | 85                               |
| 2007 Series A, 3.75% to 4.95%, due 2008 to 2048  | 26,740                                       | —      | 2,960                           | 23,780                                       | —                                |
| 2007 Series B, 5.39% to 6.13%, due 2017 to 2037  | 4,700                                        | —      | 70                              | 4,630                                        | 60                               |
| 2007 Series G, variable rate, due 2008 to 2034   | 25,555                                       | —      | 1,860                           | 23,695                                       | 705                              |
| 2007 Series H, variable rate, due 2008 to 2028   | 1,135                                        | —      | 1,135                           | —                                            | —                                |
| 2007 Series I, variable rate, due 2008 to 2029   | 9,325                                        | —      | 1,155                           | 8,170                                        | 620                              |
| 2008 Series A, 2.5% to 6.0%, due 2009 to 2050    | 10,185                                       | —      | 125                             | 10,060                                       | 130                              |
| 2008 Series B, variable rate, due 2008 to 2048   | 96,775                                       | —      | 6,550                           | 90,225                                       | 405                              |
| 2008 Series C, variable rate, due 2009 to 2039   | 10,625                                       | —      | 70                              | 10,555                                       | 110                              |
| 2008 Series D, 2.75% to 5.20%, due 2008 to 2019  | 22,805                                       | —      | 14,740                          | 8,065                                        | 710                              |
| 2008 Series E, 2.00% to 5.63%, due 2008 to 2029  | 40,900                                       | —      | 14,125                          | 26,775                                       | 1,810                            |
| 2008 Series F, variable rate, due 2019 to 2048   | 96,125                                       | —      | —                               | 96,125                                       | —                                |
| 2008 Series G, variable rate, due 2008 to 2039   | 15,280                                       | —      | 160                             | 15,120                                       | 170                              |
| 2009 Series A, 1.95% to 4.95%, due 2011 to 2041  | —                                            | 30,510 | —                               | 30,510                                       | —                                |
| 2009 Series B, 4.70% to 4.90%, due 2010 to 2040  | —                                            | 4,100  | —                               | 4,100                                        | 45                               |
| 2009 Series C, 2.55%, due 2012                   | —                                            | 17,335 | —                               | 17,335                                       | —                                |
| 2009 Series D, variable rate, due 2010 to 2048   | —                                            | 19,430 | —                               | 19,430                                       | 420                              |
| Total 2005 Bond Resolution                       | 481,705                                      | 71,375 | 53,290                          | 499,790                                      | 9,115                            |
| Total Multi-Family Bonds Program                 | 1,260,430                                    | 71,375 | 105,465                         | 1,226,340                                    | 49,465                           |
| Net discount on bonds payable                    | (472)                                        |        |                                 | (284)                                        |                                  |
| Deferred bond refunding costs                    | (10,392)                                     |        |                                 | (9,432)                                      |                                  |
| Total Multi-Family Bonds Payable (net)           | 1,249,566                                    |        |                                 | 1,216,624                                    |                                  |
| Total Bonds Payable                              | <u>\$ 2,642,761</u>                          |        |                                 | <u>\$ 2,617,929</u>                          |                                  |

On October 1, 2009, the Agency issued \$71,375 of new money Multi-Family Revenue Bonds, 2009 Series A, B, C and D. The Series D bonds, in the amount of \$19,430 and issued as Variable Rate (Federally Taxable) bonds, were purchased by the Agency and held in the Agency's General Fund. The Series D bond rate is reset weekly and is based off of One-Month LIBOR plus 25 basis points.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **10. Bonds and Obligations (continued)**

Simultaneously with the issuance of the Multi-Family Revenue Bonds, 2009 Series A, B, C and D, the agency issued and delivered to the trustee, for the benefit of the holders of all bonds outstanding under the Multi-family 2005 Resolution a surety bond up to an amount not to exceed \$25,000 which is included as pledged funds under the resolution. The Agency Surety is a limited, general obligation of the Agency, and has a term expiring no later than November 1, 2016.

In 2009, The Agency issued Single Family Housing Revenue Bonds 2009CC, 2009DD, 2009EE, 2009FF and 2009GG which totaled \$186.5 million. The bond issue consisted of \$100 million of new money financing and \$86.5 million of refunding bonds.

Interest paid on variable-rate tax-exempt bonds is closely correlated with The Securities Industry and Financial Markets Association Municipal Swap (SIFMA) Rate and taxable bond rates are closely correlated with LIBOR or the FHLB Discount Note rate plus a fixed spread. Generally, note resets occur quarterly, monthly or weekly.

The net proceeds of the aforementioned bonds and obligations were used to make qualified mortgage loans, purchase eligible residential mortgage and home improvement loans and/or establish debt service reserve accounts.

As of December 31, 2009 and 2008, there was \$21,112 and \$55,466, respectively, of undisbursed proceeds from the sale of bonds and obligations. Such funds represent initial mortgage loan funds committed to Multi-Family Housing sponsors authorized under various resolutions.

### **Pledged Revenue on Revenue Bonds**

The Agency has pledged, as security for all the bonds it issues, all revenue within each Bond and Obligation Fund. The bonds are payable with pledged revenue through 2047 for Single Family Bonds and 2050 for Multi Family Bonds. Total principal and interest remaining on the Single Family debt is \$1,398,600 and \$1,044,967, respectively, and on Multi Family debt \$1,226,340 and \$905,249, respectively, with annual requirements ranging from \$91,057 and \$61 for Single Family and \$118,683 and \$155 for Multi Family. For the current year, principal and interest paid by the Agency was \$178,705 and \$47,624 for Single Family and \$105,465 and \$48,576 for Multi Family, respectively.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 10. Bonds and Obligations (continued)

#### Future Principal and Interest Requirements

The approximate principal and interest payments required on outstanding bonds and obligations over the next five years and thereafter are as follows:

| Agency Component                       | Fixed and Unhedged<br>Variable Rate |                   | Hedged Variable Rate |                  |                             | Principal           | Total<br>Interest and<br>Interest<br>Rate Swaps,<br>Net |
|----------------------------------------|-------------------------------------|-------------------|----------------------|------------------|-----------------------------|---------------------|---------------------------------------------------------|
|                                        | Principal                           | Interest          | Principal            | Interest         | Interest Rate<br>Swaps, Net |                     |                                                         |
| <b>Single Family</b>                   |                                     |                   |                      |                  |                             |                     |                                                         |
| 2010                                   | \$ 24,620                           | \$ 39,486         | \$ 4,610             | \$ 1,553         | \$ 20,790                   | \$ 29,230           | \$ 61,829                                               |
| 2011                                   | 22,990                              | 39,708            | 5,840                | 1,497            | 20,657                      | 28,830              | 61,862                                                  |
| 2012                                   | 24,285                              | 38,763            | 5,885                | 1,478            | 20,517                      | 30,170              | 60,758                                                  |
| 2013                                   | 24,010                              | 37,739            | 6,540                | 1,457            | 20,376                      | 30,550              | 59,572                                                  |
| 2014                                   | 25,115                              | 36,718            | 7,920                | 1,436            | 20,096                      | 33,035              | 58,250                                                  |
| 2015-2019                              | 144,645                             | 166,356           | 61,880               | 6,706            | 94,291                      | 206,525             | 267,353                                                 |
| 2020-2024                              | 179,845                             | 131,676           | 89,380               | 5,565            | 78,978                      | 269,225             | 216,219                                                 |
| 2025-2029                              | 173,795                             | 86,538            | 102,180              | 4,170            | 60,040                      | 275,975             | 150,748                                                 |
| 2030-2034                              | 132,725                             | 45,214            | 142,240              | 2,499            | 37,383                      | 274,965             | 85,096                                                  |
| 2035-2039                              | 97,670                              | 11,593            | 121,150              | 689              | 10,558                      | 218,820             | 22,840                                                  |
| 2040-2044                              | —                                   | 306               | —                    | —                | —                           | —                   | 306                                                     |
| 2045-2049                              | 1,275                               | 134               | —                    | —                | —                           | 1,275               | 134                                                     |
|                                        | <u>\$ 850,975</u>                   | <u>\$ 634,231</u> | <u>\$ 547,625</u>    | <u>\$ 27,050</u> | <u>\$ 383,686</u>           | <u>1,398,600</u>    | <u>\$ 1,044,967</u>                                     |
| Add unamortized premium                |                                     |                   |                      |                  |                             | 3,519               |                                                         |
| Less unamortized deferral on refunding |                                     |                   |                      |                  |                             | (814)               |                                                         |
|                                        |                                     |                   |                      |                  |                             | <u>\$ 1,401,305</u> |                                                         |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 10. Bonds and Obligations (continued)

| Agency Component    | Fixed and Unhedged<br>Variable Rate |                   | Hedged Variable Rate |                  |                             | Principal           | Total<br>Interest and<br>Interest<br>Rate Swaps,<br>Net |
|---------------------|-------------------------------------|-------------------|----------------------|------------------|-----------------------------|---------------------|---------------------------------------------------------|
|                     | Principal                           | Interest          | Principal            | Interest         | Interest Rate<br>Swaps, Net |                     |                                                         |
| <b>Multi-Family</b> |                                     |                   |                      |                  |                             |                     |                                                         |
| 2010                | \$ 43,385                           | \$ 39,262         | \$ 6,080             | \$ 1,373         | \$ 19,437                   | \$ 49,465           | \$ 60,072                                               |
| 2011                | 38,615                              | 37,052            | 5,950                | 1,306            | 19,272                      | 44,565              | 57,630                                                  |
| 2012                | 55,170                              | 35,157            | 8,025                | 1,290            | 19,041                      | 63,195              | 55,488                                                  |
| 2013                | 37,965                              | 32,756            | 8,155                | 1,266            | 18,722                      | 46,120              | 52,744                                                  |
| 2014                | 27,000                              | 30,925            | 9,335                | 1,244            | 18,398                      | 36,335              | 50,567                                                  |
| 2015-2019           | 127,445                             | 133,305           | 60,160               | 5,775            | 85,446                      | 187,605             | 224,526                                                 |
| 2020-2024           | 124,640                             | 96,283            | 85,515               | 4,803            | 70,995                      | 210,155             | 172,081                                                 |
| 2025-2029           | 116,440                             | 59,983            | 89,105               | 3,604            | 52,516                      | 205,545             | 116,103                                                 |
| 2030-2034           | 80,530                              | 26,636            | 73,385               | 2,508            | 35,578                      | 153,915             | 64,722                                                  |
| 2035-2039           | 43,490                              | 11,410            | 63,435               | 1,539            | 20,602                      | 106,925             | 33,551                                                  |
| 2040-2044           | 15,535                              | 3,753             | 59,440               | 799              | 9,752                       | 74,975              | 14,304                                                  |
| 2045-2049           | 8,605                               | 1,308             | 38,785               | 155              | 1,993                       | 47,390              | 3,456                                                   |
| 2050-2054           | 150                                 | 5                 | —                    | —                | —                           | 150                 | 5                                                       |
|                     | <u>\$ 718,970</u>                   | <u>\$ 507,835</u> | <u>\$ 507,370</u>    | <u>\$ 25,662</u> | <u>\$ 371,752</u>           | <u>\$ 1,226,340</u> | <u>\$ 905,249</u>                                       |

Net discount on bonds payable

(284)

Unamortized deferral on refunding

(9,432)

\$ 1,216,624

### 11. Bonds and Obligations Refunding

#### Single-Family Mortgage Component

On November 19, 2009, the Agency issued \$86,485 in Single-Family Housing Revenue Bonds, 2009 Series DD, EE, and FF to refund \$86,485 of outstanding Home Buyer Revenue Bond Resolution 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds. All outstanding 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds were redeemed on December 23, 2009. The Agency refunded the 1997 Series T and U, 1998 Series V and W, and 1999 Series Z and AA bonds to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$2,288, or roughly 2.65% of the refunding bonds.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **12. Conduit Debt Obligations**

On September 7, 2006, the Agency closed on \$8,350 in Variable Rate Demand Multifamily Housing Revenue Bonds (“Meadow Brook Apartments Project”) consisting of 2006 Series A Bonds. The bond issue will finance 96 rental units. At December 31, 2009 and 2008 the bonds outstanding was \$6,830 and \$8,350, respectively.

During the fiscal year ended June 30, 2005, the Agency issued 2004 Series A Capital Fund Program Bonds and on August 15, 2007, the Agency issued 2007 Series A Capital Fund Program Revenue Bonds. These bonds were issued to provide funds to local Housing Authorities to finance on an accelerated basis certain capital renovations and improvements to each of the Authority’s public housing developments. The bonds are payable from and secured primarily by Capital Fund Program moneys, subject to the availability of appropriations to be paid by the United States Department of Housing and Urban Development (“HUD”) to each Authority. These bonds are special and limited obligations of the Agency. The bonds, which are considered conduit debt obligations by GASB, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements.

At December 31, 2009 and 2008, Capital Fund Program Bonds outstanding aggregated \$83,360 and \$89,190, respectively.

### **13. Funds Held in Trust for Mortgagors**

Funds held by the Agency for its projects include proceeds from conversion of projects from non-profit to limited dividend status in the form of development cost and community development escrows and unspent subsidies. These funds are available to absorb initial operating deficits, construction overruns, provide additional amenities to the projects, and for other contingencies.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 13. Funds Held in Trust for Mortgagors (continued)

Funds held in trust for mortgagors as of December 31, 2009 and 2008 include the following:

|                                | <b>December 31</b> |                   |
|--------------------------------|--------------------|-------------------|
|                                | <b>2009</b>        | <b>2008</b>       |
| Multi-Family Housing Component | \$ 42,985          | \$ 43,716         |
| General Fund:                  |                    |                   |
| Community development escrows  | 4,930              | 5,164             |
| Development cost escrows       | 7,827              | 8,765             |
| Other funds held in trust      | 315,084            | 304,354           |
| Total General Fund             | 327,841            | 318,283           |
| Total                          | <u>\$ 370,826</u>  | <u>\$ 361,999</u> |

### 14. Mortgagor Escrow Deposits

The Agency holds, in escrow, monthly deposits from the projects for payments of property and liability insurance, hazard insurance, payments in lieu of taxes, and major repairs and replacements and undisbursed earnings. Mortgagor escrow deposits as of December 31, 2009 and 2008 include the following:

|                                      | <b>December 31</b> |                   |
|--------------------------------------|--------------------|-------------------|
|                                      | <b>2009</b>        | <b>2008</b>       |
| Multi-Family Housing Component       | \$ 4,726           | \$ 5,843          |
| General Fund:                        |                    |                   |
| Reserve for repairs and replacements | 161,518            | 161,877           |
| Tax and insurance escrows            | 45,956             | 44,186            |
| Total General Fund                   | 207,474            | 206,063           |
| Total                                | <u>\$ 212,200</u>  | <u>\$ 211,906</u> |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 15. Real Estate Held for Redevelopment

The properties were acquired by A Better Camden Corporation (“ABC”) as part of an overall redevelopment strategy undertaken in conjunction with municipal and/or nonprofit community development initiatives. ABC negotiated the prices to be paid for privately owned properties after ordering and analyzing detailed title work and appraisals. Since the owners were not necessarily prepared to sell their properties prior to ABC’s contact with them, ABC often paid a premium for the property. In accordance with advice rendered by the Attorney General’s office, no more than 20% over appraised value was paid by ABC for each of these properties. In two cases special permission was granted to exceed this percentage ceiling.

As to the disposition of ABC acquired properties, they are usually transferred to municipal redevelopment agencies, municipalities or nonprofit or for profit developers at a nominal cost in conjunction with community redevelopment plans. The expense is recognized in the year of transfer.

### 16. Changes in Long-Term Liabilities

Long-term liability activity is summarized as follows:

|                                   | <b>Balance<br/>December 31,<br/>2008</b> | <b>Additions</b>  | <b>Reductions</b> | <b>Balance<br/>December 31,<br/>2009</b> | <b>Due Within<br/>One Year</b> |
|-----------------------------------|------------------------------------------|-------------------|-------------------|------------------------------------------|--------------------------------|
| Bonds and obligations, net        | \$ 2,642,761                             | \$ 257,860        | \$ 282,692        | \$ 2,617,929                             | \$ 78,695                      |
| Minimum escrow requirement        | 9,796                                    | 1,601             | 1,815             | 9,582                                    | —                              |
| Funds held in trust for mortgagor | 361,999                                  | 446,490           | 437,663           | 370,826                                  | —                              |
| Unearned revenues                 | 8,572                                    | 12,820            | 805               | 20,587                                   | —                              |
| Other non-current liabilities     | 26,499                                   | 15,397            | 18,052            | 23,844                                   | —                              |
|                                   | <u>\$ 3,049,627</u>                      | <u>\$ 734,168</u> | <u>\$ 741,027</u> | <u>\$ 3,042,768</u>                      | <u>\$ 78,695</u>               |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 16. Changes in Long-Term Liabilities (continued)

|                                   | Balance<br>December 31,<br>2007 | Additions           | Reductions          | Balance<br>December 31,<br>2008 | Due Within<br>One Year |
|-----------------------------------|---------------------------------|---------------------|---------------------|---------------------------------|------------------------|
| Bonds and obligations, net        | \$ 2,270,141                    | \$ 940,755          | \$ 568,135          | \$ 2,642,761                    | \$ 93,775              |
| Minimum escrow requirement        | 9,550                           | 1,738               | 1,492               | 9,796                           | —                      |
| Funds held in trust for mortgagor | 352,223                         | 833,058             | 823,282             | 361,999                         | —                      |
| Unearned revenues                 | 6,841                           | 2,316               | 585                 | 8,572                           | —                      |
| Other non-current liabilities     | 20,751                          | 19,807              | 14,059              | 26,499                          | —                      |
|                                   | <u>\$ 2,659,506</u>             | <u>\$ 1,797,674</u> | <u>\$ 1,407,553</u> | <u>\$ 3,049,627</u>             | <u>\$ 93,775</u>       |

### 17. Net Assets

#### Restricted Under Bond and Obligation Resolutions

As described in Note 3, monies within each Bond and Obligation Fund are pledged as security for the respective bondholders, and thus are restricted as to their application.

#### Restricted for Special Need Housing

During fiscal year ended June 30, 2006, the Agency received \$50,000 of a \$200,000 authorization from the sale of New Jersey Commission Development Authority Motor Vehicle Surcharge Revenue Bonds to establish as Special Needs Housing Trust and Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs. The remaining authorization of \$150,000 was received by the Agency during the year ended December 31, 2007. Interest earned on the investment was \$940 for year ended December 31, 2009.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 17. Net Assets (continued)

#### Appropriated General Fund Net Assets

Appropriated General Fund net assets are unrestricted net assets that have been designated by the Agency's members for the following purposes at December 31, 2009 and 2008.

|                                                | <b>December<br/>31, 2009</b> | <b>December<br/>31, 2008</b> |
|------------------------------------------------|------------------------------|------------------------------|
| ABC Corporation                                | \$ 1,790                     | \$ 537                       |
| Affordable Rental Housing Subsidy Loan Program | 2                            | 3,202                        |
| Agency CIAP                                    | 637                          | 738                          |
| Aging Out of Foster Care                       | 1,300                        | 1,300                        |
| Asbury Park Initiative PILOT                   | —                            | 500                          |
| At Home Downtown                               | 3,575                        | 3,980                        |
| Bond Refunding Proceeds                        | 1,772                        | 6,206                        |
| Camden Initiative                              | 551                          | 763                          |
| CHOICE                                         | 58,070                       | 46,752                       |
| CIAP Loan Program                              | 8,972                        | 1,172                        |
| City Living                                    | 14,000                       | 16,000                       |
| Energy Benchmarking                            | 50                           | 50                           |
| Equity Gap Program                             | —                            | 135                          |
| Ex-Offenders Re-Entry Housing Program          | 37                           | 37                           |
| Foreclosure Prevention/Homeownership Refinance | 1,664                        | 1,664                        |
| Homeless Management Information System         | 100                          | 100                          |
| HOPE                                           | 500                          | 500                          |
| Information Technology                         | 624                          | 714                          |
| Kinship Care Home Loan Program                 | 154                          | 154                          |
| Life Safety Rehabilitation                     | 153                          | 153                          |
| Live Where You Work                            | 630                          | 1,000                        |
| MONI HIF                                       | 18,501                       | 21,158                       |
| Multi-Family Rental Investment Program         | —                            | 420                          |
| NJHMFA portion of Undisbursed Mtg. Proceeds    | 2,142                        | 4,614                        |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 17. Net Assets (continued)

|                                                | <b>December<br/>31, 2009</b> | <b>December<br/>31, 2008</b> |
|------------------------------------------------|------------------------------|------------------------------|
| Non-Bond Multi-Family Program                  | \$ 7,010                     | \$ 7,781                     |
| Paragon Village #1316                          | 132                          | 132                          |
| PLAN Fund                                      | 5,000                        | 5,000                        |
| Policy and Community Initiatives               | 66                           | 93                           |
| Portfolio Disposition                          | 14                           | 37                           |
| Portfolio Reserve Balance                      | 3,609                        | 5,270                        |
| Preservation Initiatives                       | 25                           | 25                           |
| Public Outreach Initiatives                    | 397                          | 541                          |
| Reserve for Loan Losses                        | 5,700                        | 5,700                        |
| Roebling School Renaissance Zone Fund          | —                            | 100                          |
| Royal Court                                    | —                            | 497                          |
| Shore Easy                                     | 89                           | 92                           |
| Single Family Counseling                       | 124                          | 127                          |
| Small Rental Project Preservation Loan Program | 18,246                       | 15,246                       |
| Smart Start                                    | —                            | 100                          |
| Social Investment Policy                       | 250                          | 250                          |
| Strategic Zone Lending Pool                    | 21,834                       | 34,486                       |
| Transitional Housing Loans                     | 1,015                        | 1,382                        |
| UHORP HIF                                      | 1,200                        | 1,200                        |
| UHORP Mortgage Commitment                      | 19,039                       | 13,626                       |
| Urban Statewide Acquisition-NJUSA              | 3,074                        | 5,740                        |
| Welcome Home Program                           | 1,992                        | 4,120                        |
| Work Force Initiative                          | —                            | 3,000                        |
|                                                | <b>\$ 204,040</b>            | <b>\$ 216,394</b>            |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 17. Net Assets (continued)

Changes in net assets are summarized as follows:

|                                 | Invested in<br>Capital Assets,<br>Net of |                   |                   |                   |
|---------------------------------|------------------------------------------|-------------------|-------------------|-------------------|
|                                 | Related Debt                             | Restricted        | Unrestricted      | Total             |
| Net assets at December 31, 2007 | \$ 12,285                                | \$ 499,370        | \$ 478,579        | \$ 990,234        |
| Income                          | —                                        | —                 | 7,626             | 7,626             |
| Acquisition of capital assets   | 1,530                                    | —                 | (1,530)           | —                 |
| Transfer                        | —                                        | (23,348)          | 22,348            | —                 |
| Depreciation on capital assets  | (1,202)                                  | —                 | 1,202             | —                 |
| Net assets at December 31, 2008 | 12,613                                   | 477,022           | 508,225           | 997,860           |
| Income                          | —                                        | —                 | (21,223)          | (21,223)          |
| Acquisition of capital assets   | 626                                      | —                 | (626)             | —                 |
| Transfer                        | —                                        | (21,127)          | 21,127            | —                 |
| Depreciation on capital assets  | (1,092)                                  | —                 | 1,092             | —                 |
| Net assets at December 31, 2009 | <u>\$ 12,147</u>                         | <u>\$ 455,895</u> | <u>\$ 508,595</u> | <u>\$ 976,637</u> |

### 18. Pension Plan

The Agency contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System, which is administered by the New Jersey Division of Pensions and Benefits. This plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B. The plan has a Board of Trustees that is primarily responsible for its administration.

The contribution requirements of plan members are determined by State statute. Effective July 1, 2007, in accordance with Chapter 103, P.L. 2007, plan members enrolled in the Public Employees' Retirement System are required to contribute 5.5% of their annual covered salary. Prior to that, the contribution rate was 5% as stated in Chapter 62, P.L. 1994. In 2004 N.J.S.A. 43:15A-24 authorized the reduction in member rates based on the existence of surplus pension assets in the retirement system to 3% for calendar year 2004, returning to the 5% rate on January 1, 2005. The Agency is billed annually for its normal contribution plus any accrued liability.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### 18. Pension Plan (continued)

The Agency's contributions to the plan, equal to the required contributions, were as follows:

#### Public Employees Retirement System

| Period                                 | Normal<br>Contribution | Accrued<br>Liability | Total<br>Liability | Funded by<br>State | Paid by<br>Agency  |
|----------------------------------------|------------------------|----------------------|--------------------|--------------------|--------------------|
| Fiscal year ended<br>December 31, 2009 | \$ 466                 | \$ 539               | \$ 1,005           | \$ –               | \$ 1,005           |
| Fiscal year ended<br>December 31, 2008 | 573                    | 442                  | 1,015              | 203                | 812                |
| Fiscal year ended<br>December 31, 2007 | 505                    | 262                  | 767                | 307                | 460 <sup>(1)</sup> |

<sup>(1)</sup> Under the provisions of Chapter 108, P.L. 2003, which calls for a return of pension contributions on a phase in basis, the Agency's share of the total normal contribution and accrued liability increased 60% in 2007, and 80% in 2008. The phase-in will continue through 2009 with 100% of the actuarially calculated amounts due. There is a significant increase in the amount due each year until the phase-in is completed in 2009 when the Agency returns to making the full annual contribution. The provisions of Chapter 19, P.L. 2009 provided the ability to defer 50% of the pension liability under certain circumstances. The Agency chose to pay the entire liability due for 2009.

#### Early Retirement Incentive Program

The Agency has approved Early Retirement Incentive Programs known as ERI 1 and ERI 3, as permitted by State legislation for certain members of the Public Employees' Retirement System. These members had to meet certain age and service requirements and had to apply for retirement between certain dates. Three (3) employees participated in ERI 1 and fifteen (15) employees participated in ERI 3. The Agency is assessed annually for the actuarially determined contribution to fund this program. The Agency is obligated to make annual installments with each subsequent year payment increasing every year by 4% (ERI 1) and 5.95% for 2006 and 4% beginning in 2007 (ERI 3). Payments for the years ended December 31, 2009, 2008, and 2007, were \$109, \$105, and \$101, respectively.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 18. Pension Plan (continued)

Installments due by the Agency at December 31, 2009 are as follows:

|           |                 |
|-----------|-----------------|
| 2010      | \$ 112          |
| 2011      | 116             |
| 2012      | 121             |
| 2013      | 125             |
| 2014      | 130             |
| 2015-2019 | 735             |
| 2020-2024 | 782             |
| 2025-2029 | 868             |
| 2030-2034 | 1,056           |
|           | <u>\$ 4,045</u> |

The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey  
Division of Pensions and Benefits  
P.O. Box 295  
Trenton, New Jersey 08625-0295

### 19. Post Employment Benefits

The Agency follows the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This statement establishes guidelines for reporting costs associated with “other post-employment benefits” (“OPEB”). OPEB costs are actuarially calculated based on plan benefits (other than pensions) that current and retired employees have accrued as a result of their respective years of employment service and to what extent progress is being made in funding the plan.

The Agency elected to recognize the entire liability of \$28,146 as of January 1, 2007.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **19. Post Employment Benefits (continued)**

#### **The Plan**

The Agency is responsible for the cost of health benefits provided to members of PERS who retired from the Agency with 25 years of service along with their spouses, and some dependent children. The plan offers comprehensive benefits through various plan providers consisting of hospital, medical, health, substance abuse and prescription drug programs. The State administers the plan and has the authority to establish and amend certain benefit provisions offered. The State's plan is considered a single employer defined benefit plan, is not a separate entity or trust and does not issue stand-alone financial statements. The Agency, as a participant in the plan, recognizes OPEB expenses on an accrual basis.

#### **Funding Policy**

Beginning July 1, 2008 current employees contribute 1.5% of their salary toward medical benefits, prior to that there was no employee contributions required for the Agency's Employee Medical Health Plan. During the years ended December 31, 2009 and 2008, the Agency paid \$2,241 and \$2,207, respectively, in health insurance premiums for current employees. The Agency also paid \$553 and \$466 for the years ended December 31, 2009 and 2008, respectively, towards benefits for 53 and 50 eligible retired members. Retired employees who are eligible for Medicare are also reimbursed for their portion of Medicare insurance premiums on a pay-as-you-go basis.

The Agency's annual OPEB cost is calculated based on the annual required contribution "ARC", an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years. The Agency has elected to amortize the UAAL over one year. The Agency's annual OPEB cost for the years ended December 31, 2009 and 2008 and the related information for the plan are as follows (dollar amounts in thousands):

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 19. Post Employment Benefits (continued)

|                                        | 2009      | 2008      |
|----------------------------------------|-----------|-----------|
| Annual required contribution           | \$ 1,070  | \$ 1,639  |
| Interest on net OPEB obligation        | 1,192     | 940       |
| Annual OPEB cost                       | 2,262     | 2,579     |
| Contributions made                     | (553)     | (466)     |
| Increase in net OPEB obligation        | 1,709     | 2,113     |
| Net OPEB obligation, beginning of year | 29,807    | 27,694    |
| Net OPEB obligation, end of year       | \$ 31,516 | \$ 29,807 |

The Plan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009, 2008 and 2007 were as follows (dollar amounts in thousands)

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--------------------------------------------|---------------------|
| December 31, 2009 | \$ 2,262         | 24.4%                                      | \$ 31,516           |
| December 31, 2008 | 2,579            | 18.1                                       | 29,807              |
| December 31, 2007 | 28,146           | 1.6                                        | 27,694              |

The actuarial accrued liability for benefits was \$29,199, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,466 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 158.1%.

The actuarial valuation date is January 1, 2009. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information, that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **19. Post Employment Benefits (continued)**

#### *Actuarial Methods and Assumptions*

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the January 1, 2009 actuarial valuation, the projected unit credit with benefits attributed from date of hire to the date of decrement method was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate of 9.27% medical and grading down to an ultimate rate of 5% effective 2017 and thereafter.

### **20. Deferred Compensation Account**

The Agency offers its employees a choice of two Deferred Compensation Plans in accordance with Internal Revenue Code Section 457. The Plans, available to all full time employees at their option, permit employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Agency or its creditors.

### **21. Reserve for Interest Rebate**

The Tax Reform Act of 1986 placed restrictions on the investments of the proceeds of certain tax-exempt bonds issued after December 31, 1986. Specifically, investment earnings which are above arbitrage bond yield are required to be rebated to the United States Treasury Department within sixty days of the end of the fifth bond year. A bond year is defined as ending on the anniversary date of the bond settlement.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

*(In Thousands)*

### **21. Reserve for Interest Rebate (continued)**

The Agency has various issues of bonds outstanding (see Note 10), which also had various settlement dates. Rebate calculations on these bonds are required to be made at least once every five years. However, the Agency prepares annual rebate calculations for purposes of determining any contingent liability for rebate.

The Agency has elected to establish a reserve account in the amount of \$871 and \$734 for the years December 31, 2009 and 2008, respectively, for the Multi-Family Bond Resolution Fund and \$189 and \$250 at December 31, 2009 and 2008, respectively, for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

### **22. Derivative Instruments**

The Agency has several variable rate bond series currently outstanding, in order to protect against the potential of rising interest rates, the Agency entered into various pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the Agency would have paid to issue fixed-rate debt. The notional principal of the swaps in some cases initially increase as the borrowed funds are anticipated to be loaned out. The Agency also entered into various interest rate cap agreements that were anticipated to effectively limit the Agency's interest rate exposure during the period before the swaps fully hedge the exposure. For footnote purposes, the fair values of the Agency's derivatives have been presented.

### **Terms, Fair Values and Credit Risk**

The terms, fair values, and credit ratings of the outstanding swaps and caps as of December 31, 2009, are summarized in the table below. The caps and the swaps are utilized together to hedge the risk from the associated variable rate debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The Agency pays a fixed interest rate on the notional amount that represents the principal amount of the related bonds. The Agency receives either 1-Month LIBOR times the notional amount for the taxable borrowings, or a percentage of 1-Month LIBOR plus a fixed spread or The Securities Industry And Financial Markets Association Municipal Swap ("SIFMA") Index times the notional amount for the tax-exempt borrowings from the counterparty, plus a fixed spread as applicable, as listed below. Where possible, only the net difference will be exchanged with the counterparty and the Agency continues to pay interest to the certificate-holders at the variable rate provided on the bonds. The purpose of the swap is to mitigate interest rate risk. The Agency will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 22. Derivative Instruments (continued)

#### Single Family Bond Component Swaps

| Associated Bond Issue | Hedged Variable Rate Bonds Outstanding | Swap Notional Amount | Swap Effective Date | Swap Termination Date | Fixed Rate Paid | Variable Rate Received              | Fair Values | Counterparty                                          | Counterparty Credit Rating (Moody's/S&P/Fitch) |
|-----------------------|----------------------------------------|----------------------|---------------------|-----------------------|-----------------|-------------------------------------|-------------|-------------------------------------------------------|------------------------------------------------|
| SHRB* 2004 I-1        | \$ 21,125                              | \$ 21,125            | 8/5/2004            | 4/1/2025              | 4.145%          | 68.2% of 1-Mo LIBOR + 27bp          | \$ (1,326)  | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                 |
| SHRB* 2004 I-3        | 19,775                                 | 19,775               | 8/5/2004            | 10/1/2034             | 4.625%          | 68.2% of 1-Mo LIBOR + 27bp          | (202)       | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                 |
| SHRB* 2005 N          | 26,235                                 | 18,785               | 10/1/2006           | 10/1/2017             | 4.055%          | 68% of 1-Mo LIBOR or SIFMA + 1bp**  | (1,615)     | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                 |
| SHRB* 2005 O-1        | 47,025                                 | 47,025               | 4/1/2006            | 10/1/2026             | 4.396%          | 68% of 1-Mo LIBOR or SIFMA + 8bp*** | (396)       | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                 |
| SHRB* 2005 O-2        | 32,925                                 | 32,925               | 4/1/2006            | 4/1/2031              | 4.332%          | 68% of 1-Mo LIBOR or SIFMA + 8bp*** | (1,380)     | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                 |
| SHRB* 2005 P/Q/R      | 109,370                                | 79,865               | 11/1/2006           | 4/1/2038              | 4.797%          | USD-SIFMA Municipal Swap Index      | (5,457)     | UBS AG                                                | Aa3 / A+ / A+                                  |
| SHRB* 2005 P/Q/R      | —                                      | 29,305               | 4/1/2007            | 4/1/2038              | 3.927%          | 68% of 1-Mo LIBOR + 18bp            | (1,286)     | Goldman Sachs Mitsui Marine Derivative Products, L.P. | Aa1 / AAA / -                                  |
| SHRB* 2007 V          | 96,375                                 | 96,375               | 11/8/2007           | 10/1/2037             | 4.060%          | 69% of 1-Mo LIBOR                   | (12,927)    | Royal Bank of Canada, New York                        | Aaa / AA- / AA                                 |
| SHRB* 2008 Y          | 78,130                                 | 78,130               | 5/1/2008            | 10/1/2039             | 3.757%          | 69% of 1-Mo LIBOR                   | (2,437)     | The Bank of New York                                  | Aa2 / AA- / AA-                                |
| SHRB* 2008 Z-1        | 13,565                                 | 13,565               | 5/1/2008            | 10/1/2023             | 3.893%          | 67% of 1-Mo LIBOR + 16bp            | (724)       | Goldman Sachs Mitsui Marine Derivative Products, L.P. | Aa1 / AAA / -                                  |
| SHRB* 2008 Z-2        | 24,015                                 | 24,015               | 10/1/2008           | 10/1/2034             | 4.025%          | 69% of 1-Mo LIBOR                   | (873)       | Bank of America, N.A.                                 | Aa3 / A+ / A+                                  |
| SHRB* 2008 BB         | 79,085                                 | 79,085               | 3/1/2009            | 10/1/2039             | 3.504%          | 68% of 1-Mo LIBOR                   | (1,844)     | The Bank of New York                                  | Aa2 / AA- / AA-                                |

\* Single-Family Housing Revenue Bonds

\*\* If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be SIFMA + 1bp.

\*\*\* If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be SIFMA + 8bp.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 22. Derivative Instruments (continued)

#### Multi-Family Bond Component Swaps

| Associated<br>Bond Issue                                     | Hedged<br>Variable Rate<br>Bonds<br>Outstanding | Swap<br>Notional<br>Amount | Swap<br>Effective<br>Date | Swap<br>Termination<br>Date | Fixed<br>Rate<br>Paid | Variable<br>Rate<br>Received          | Fair<br>Values | Counterparty                                          | Counterparty<br>Credit Rating<br>(Moody's/S&P/Fitch) |
|--------------------------------------------------------------|-------------------------------------------------|----------------------------|---------------------------|-----------------------------|-----------------------|---------------------------------------|----------------|-------------------------------------------------------|------------------------------------------------------|
| MHRB* 2002-G                                                 | \$ 5,060                                        | \$ 5,060                   | 10/2/2002                 | 5/1/2025                    | 6.2450%               | 1-Mo LIBOR                            | \$ (897)       | Merrill Lynch Capital Services, Inc. (MLCS)           | A2 / A / A+                                          |
| MHRB 2008-3                                                  | 168,790                                         | 47,970                     | 11/1/2002                 | 5/1/2029                    | 4.9888%               | USD-SIFMA Municipal Swap Index        | (8,513)        | Merrill Lynch Capital Services, Inc. (MLCS)           | A2 / A / A+                                          |
| MHRB 2008-3                                                  |                                                 | 29,950                     | 11/1/2003                 | 5/1/2033                    | 4.3355%               | USD-SIFMA Municipal Swap Index        | (3,188)        | Goldman Sachs Mitsui Marine Derivative Products, L.P. | Aa1 / AAA / -                                        |
| MHRB 2008-3                                                  |                                                 | 90,590                     | 5/1/2005                  | 11/1/2046                   | 4.0010%               | 67% of 1-Mo LIBOR + 18bp              | (6,722)        | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MHRB 2008-4                                                  | 22,500                                          | 12,550                     | 5/8/2003                  | 5/1/2035                    | 5.2810%               | 1-Mo LIBOR                            | (1,097)        | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MHRB 2008-4                                                  |                                                 | 9,685                      | 5/1/2004                  | 11/1/2037                   | 5.3150%               | 1-Mo LIBOR                            | (954)          | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                       |
| MRB** 2005-F                                                 | 12,635                                          | 12,485                     | 8/10/2005                 | 5/1/2040                    | 4.2190%               | USD-SIFMA Municipal Swap Index + 5bp  | (394)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2005-G                                                   | 4,710                                           | 4,900                      | 11/1/2006                 | 11/1/2047                   | 5.4830%               | 1-Mo LIBOR                            | (305)          | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MRB 2006-A                                                   | 22,040                                          | 22,240                     | 3/15/2006                 | 5/1/2028                    | 3.7150%               | 63% of 1-Mo LIBOR + 20.5 bp           | (1,837)        | Royal Bank of Canada, New York                        | Aaa / AA- / AA                                       |
| MRB 2006-B                                                   | 8,115                                           | 8,115                      | 3/15/2006                 | 5/1/2028                    | 5.4220%               | 1-Mo LIBOR                            | (730)          | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MRB 2007-G                                                   | 23,695                                          | 24,845                     | 11/1/2007                 | 5/1/2034                    | 4.0100%               | 63% of 1-Mo LIBOR + 20.5 bp           | (2,149)        | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2007-I                                                   | 8,170                                           | 8,170                      | 11/1/2007                 | 5/1/2029                    | 5.9100%               | 1-Mo LIBOR                            | (1,030)        | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-B                                                   | 90,225                                          | 49,356                     | 8/21/2008                 | 5/1/2048                    | 4.6330%               | USD-SIFMA Municipal Swap Index        | (1,863)        | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-B- HMFA#<br>2190 – Royal Crescent                   |                                                 | 3,660                      | 10/1/2008                 | 11/1/2038                   | 4.4950%               | USD-SIFMA Municipal Swap Index + 33bp | (235)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-B- HMFA#<br>1426 – Heritage Village at<br>Manalapan |                                                 | 3,065                      | 1/1/2009                  | 11/1/2038                   | 4.4500%               | USD-SIFMA Municipal Swap Index + 33bp | (181)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-C                                                   | 10,555                                          | 5,760                      | 11/1/2008                 | 5/1/2040                    | 5.7120%               | 1-Mo LIBOR                            | (699)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-C – HMFA#<br>2265 – Sharp Road                      |                                                 | 2,700                      | 10/1/2009                 | 11/1/2039                   | 6.1460%               | 1-Mo LIBOR + 80bp                     | (321)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-F                                                   | 96,125                                          | 13,100                     | 5/1/2006                  | 11/1/2039                   | 4.3900%               | USD-SIFMA Municipal Swap Index        | (1,107)        | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                       |
| MRB 2008-F                                                   |                                                 | 38,550                     | 2/10/2005                 | 11/1/2029                   | 3.4080%               | 67% of 1-Mo LIBOR + 18bp              | (1,878)        | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2008-F                                                   |                                                 | 32,915                     | 11/1/2006                 | 5/1/2046                    | 4.0493%               | 60.8% of 1-Mo LIBOR + 34 bp           | (3,277)        | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MRB 2008-F                                                   |                                                 | 12,493                     | 10/30/2007                | 5/1/2042                    | 4.6120%               | USD-SIFMA Municipal Swap Index + 5bp  | (585)          | Merrill Lynch Capital Services, Inc. (MLCS)           | A2 / A / A+                                          |
| MRB 2008-G                                                   | 15,120                                          | 4,150                      | 11/1/2005                 | 5/1/2036                    | 5.4350%               | 1-Mo LIBOR                            | (395)          | JPMorgan Chase Bank, N.A.                             | Aa3 / A+ / AA-                                       |
| MRB 2008-G                                                   |                                                 | 3,495                      | 11/1/2008                 | 11/1/2038                   | 5.6025%               | 1-Mo LIBOR                            | (467)          | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MRB 2008-G                                                   |                                                 | 7,480                      | 10/30/2007                | 11/1/2039                   | 5.8715%               | 1-Mo LIBOR                            | (558)          | Bank of America, N.A.                                 | Aa3 / A+ / A+                                        |
| MRB 2009D HMFA 1437                                          | 19,430                                          | 1,530                      | 8/1/2008                  | 11/1/2038                   | 5.566%                | 1-Mo LIBOR + 25bp                     | (152)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2009D HMFA 1352                                          |                                                 | 8,445                      | 11/1/2008                 | 11/1/2038                   | 5.516%                | 1-Mo LIBOR + 25bp                     | (935)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2009D HMFA 2101                                          |                                                 | 1,610                      | 5/1/2009                  | 5/1/2039                    | 5.857%                | 1-Mo LIBOR + 40bp                     | (203)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2009D HMFA 2171                                          |                                                 | 1,465                      | 8/1/2009                  | 11/1/2047                   | 5.886%                | 1-Mo LIBOR + 40bp                     | (184)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |
| MRB 2009D HMFA 2272                                          |                                                 | 4,085                      | 9/1/2009                  | 11/1/2039                   | 5.342%                | 1-Mo LIBOR + 25bp                     | (365)          | Lehman Brothers Special Financing Inc.                | WR / NR / NR                                         |

\* Multi-Family Housing Revenue Bonds

\*\* Multi-Family Revenue Bonds

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements

(In Thousands)

### 22. Derivative Instruments (continued)

The Agency has also entered into interest rate cap agreements to protect against rising interest rates in the initial years of the bonds listed on the chart below. The swaps and the caps work together to hedge the interest rate risk associated with the variable rate bonds. The caps' notional amounts decrease in size as the swaps' notional amounts increase, and finally the caps mature, as the size of the swaps is sufficient to hedge the bonds. Under the cap agreement, the counterparty will make payments to the Agency if interest rates based on the SIFMA Index exceed the strike rate, as listed below. In exchange, the Agency paid an upfront premium to the counterparty upon entering the agreement. The terms of the caps are as follows:

#### Multi-Family Bond Component Caps

| Associated<br>Bond Issue | Hedged<br>Variable Rate<br>Bonds<br>Outstanding | Cap<br>Notional<br>Amount<br>Outstanding | Cap<br>Effective<br>Date | Cap<br>Maturity<br>Date | Strike<br>Rate | Variable<br>Rate<br>Index         | Fair<br>Values | Counterparty              | Counterparty<br>Credit Rating<br>(Moody's/S&P/Fitch) |
|--------------------------|-------------------------------------------------|------------------------------------------|--------------------------|-------------------------|----------------|-----------------------------------|----------------|---------------------------|------------------------------------------------------|
| MRB** 2008-F             | —                                               | 9,370                                    | 4/18/2007                | 5/1/2011                | 4.6420%        | USD-SIFMA Municipal<br>Swap Index | 1              | JPMorgan Chase Bank, N.A. | Aa3 / A+ / AA-                                       |
| MRB 2008-F               | —                                               | 4,285                                    | 10/30/2007               | 5/1/2011                | 4.5000%        | USD-SIFMA Municipal<br>Swap Index | 2              | The Bank of New York      | Aa2 / AA- / AA-                                      |

\*\* Multi-Family Revenue Bonds

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements (continued)

*(In Thousands)*

### **22. Derivative Instruments (continued)**

#### **Credit Risk**

As of December 31, 2009, the Agency was not exposed to credit risk on the outstanding swaps because all swaps had negative fair values.

The swap agreements contain varying collateral agreements with the counterparties. At any point in time in which the outstanding swaps have positive fair values, each swap counterparty is required to post collateral to a third party when their credit rating, as determined by the specified nationally recognized credit rating agencies, falls below a trigger level as defined in the swap agreements. This protects the agency by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Although the Agency executes swap transactions with various counterparties, approximately 18 percent of the notional amount of swaps outstanding is held with a single counterparty. That counterparty is rated Aa3/A+/A+. All other swaps are held with separate counterparties. Those counterparties are rated A2/A/A+ or better with the exception of Lehman Brothers Special Financing Inc. which either had its ratings withdrawn or is not rated by the 3 major credit rating agency firms.

#### **Basis Risk**

Basis risk exists to the extent the Agency's variable-rate bond coupon payments do not exactly equal the index on the swap. The Agency's tax-exempt bonds are hedged with tax-exempt SIFMA based swaps and percentage of LIBOR swaps. The Agency's taxable bonds are hedged with taxable, LIBOR-based swaps. In this way, basis risk should be minimized.

#### **Interest Rate Risk**

The Agency's interest rate swaps serve to guard against a rise in variable interest rates associated with its outstanding variable rate bonds. The Agency's interest rate caps serve to eliminate interest rate risk above the strike rate on each contract. In addition, certain bond proceeds are invested in variable rate Guaranteed Investment Contracts ("GICs") or other variable rate investment obligations in order to further mitigate interest rate risk on the variable rate bonds.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements (continued)

*(In Thousands)*

### 22. Derivative Instruments (continued)

#### Termination Risk

The Agency retains the right to terminate any swap agreement at the market value prior to maturity, and the Agency was granted the right to cancel certain agreements, in whole or in part, at Par. The Agency has termination risk under the contract particularly if an Additional Termination Event (“ATE”) as defined in the swap documents were to occur. An ATE occurs if either the credit rating of the bonds associated with a specific swap, or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. The Agency has purchased termination payment insurance on certain swap contracts, which acts as a buffer against a portion of potential termination payments if an ATE was to occur. As long as the swap insurer maintains at least a minimal rating as defined in the swap documents, the insurance policy will allow the agency to avoid termination due to a decline in the credit rating of the agency bonds. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap’s fair value.

### 23. Interfund Receivables, Payables and Transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund services are provided or reimbursement occurs, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

#### Payable fund

|                                                  |                 |
|--------------------------------------------------|-----------------|
| Single-Family Home Buyer Revenue Bond Resolution | \$ 3,446        |
| Multi-Family Housing Revenue Bond Resolution     | 2,837           |
| Single-Family Housing Revenue Bond Resolution    | 1,866           |
| Multi-Family Revenue Bond Resolution             | 1,084           |
| Other Multi-Family Bond Resolutions              | 153             |
|                                                  | <u>\$ 9,386</u> |

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements (continued)

*(In Thousands)*

### 23. Interfund Receivables, Payables and Transfers (continued)

|                                                  |                  |
|--------------------------------------------------|------------------|
| <b>Receivable fund</b>                           |                  |
| General Fund                                     | <u>\$ 9,386</u>  |
| Interfund transfers:                             |                  |
| Transfers in:                                    |                  |
| Single-Family Housing Revenue Bond Resolution    | 12,368           |
| General Fund                                     | <u>149</u>       |
|                                                  | <u>\$ 12,517</u> |
| Transfers out:                                   |                  |
| Single-Family Home Buyer Revenue Bond Resolution | 12,268           |
| Multi-Family Revenue Bond Resolution             | <u>249</u>       |
|                                                  | <u>\$ 12,517</u> |

Transfers are used to move revenues that the Agency must account for in other funds in accordance with various bond and obligation resolutions.

### 24. Commitments and Contingencies

On March 15, 1994, the Agency entered into an Advances, Collateral Pledge and Security Agreement (the "Agreement") with the Federal Home Loan Bank of New York. As of December 31, 2009, the available line of credit was \$2,791 and had \$8,260 aggregate amount outstanding which was comprised of four (4) separate fixed rate amortizing advances. Repayments on the advances vary from remaining periods amortizing over 6-years to 30-years, payable monthly at rates ranging from 4.88% to 6.57%.

The Agency is a defendant in various legal actions arising in the ordinary course of business. The Agency is represented in these actions by the Attorney General of the State of New Jersey, acting as general counsel to the Agency, and by counsel to the Agency's various insurers. In the opinion of management and legal counsel, the ultimate disposition of these legal actions will not have a material adverse effect on the Agency's financial position.

# New Jersey Housing and Mortgage Finance Agency

## Notes to Financial Statements (continued)

*(In Thousands)*

### **25. Subsequent Events**

On October 19, 2009, President Obama's Administration, together with the Federal Housing Finance Agency (FHFA), and housing Government-Sponsored Enterprises Fannie Mae and Freddie Mac (the GSEs), announced an initiative to provide support to state and local housing finance agencies (HFAs). Using authority provided to the Treasury Department under the Housing and Economic Recovery Act of 2008 (HERA), the plan is designed to help state HFAs expand their affordable lending efforts and strengthen their financial standing and provides for a temporary New Issue Bond Program (NIBP) through the GSEs, to fund home loans and finance rental production at affordable rates.

NJHMFA has received an allocation of \$350 million for the NIBP for its single-family program. The NJHMFA Board, at its December 8, 2009 meeting, approved the necessary bond documents to authorize the sale of \$350 million of single-family bonds under the NIBP. On January 12, 2010 the \$350 million in NIBP bonds ("Program Bonds") closed in escrow.

The GSEs will purchase tax-exempt bonds from the Agency in exchange for securities which will then be purchased by the US Treasury. Participation in this program should enable the Agency to offer competitive mortgage rates to NJ's first-time home-buyers. The GSEs will purchase term bonds equal to no more than 60% of the total bonds issued pursuant to the NIBP. The Agency will be required to offer, through a public or private sale, bonds for the remaining 40%. In order to participate in this program, all bonds being purchased by GSEs were securitized by the GSEs on 12/30/09, and the purchase by the Treasury occurred on January 12, 2010 as noted above. The publicly-offered bonds ("Market Bonds") will be issued simultaneously with the release from escrow of the Program Bonds over the course of 2010. Market Bonds may be issued up to three times over the course of 2010, and issuances must be completed by 12/31/2010 otherwise all remaining Program Bonds held in escrow will be forfeited and must be returned to the US Treasury. Under this program, the Agency expects to issue bonds for its single-family program totaling approximately \$583.3 million.

## Required Supplementary Information

# New Jersey Housing and Mortgage Finance Agency

## Schedule of Funding Progress

As of December 31, 2009

*(In Thousands)*

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>(b)</b> | <b>Unfunded AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>(b-a)/c</b> |
|-----------------------------------------|--------------------------------------------------|--------------------------------------------------------------|------------------------------------------|-----------------------------------|------------------------------------|------------------------------------------------------------------------|
| January 1, 2007                         | \$ —                                             | \$ 25,597                                                    | \$ 25,597                                | 0%                                | \$ 14,163                          | 180.7%                                                                 |
| January 1, 2009                         | \$ —                                             | \$ 29,199                                                    | \$ 29,199                                | 0%                                | \$ 18,466                          | 158.1%                                                                 |

## Supplemental Financial Information

# New Jersey Housing and Mortgage Finance Agency

## Schedule of Net Assets – Single Family Housing Program

As of December 31, 2009 and 2008

(In Thousands)

|                                                   | 2009                                     |                                       |            | 2008       |
|---------------------------------------------------|------------------------------------------|---------------------------------------|------------|------------|
|                                                   | Home Buyer<br>Revenue Bond<br>Resolution | Housing<br>Revenue Bond<br>Resolution | Total      | Total      |
| <b>Assets</b>                                     |                                          |                                       |            |            |
| Current assets                                    |                                          |                                       |            |            |
| Restricted cash and cash equivalents              | \$ 33,829                                | \$ 119,479                            | \$ 153,308 | \$ 162,545 |
| Restricted investments                            | –                                        | –                                     | –          | 1,720      |
| Accrued interest receivable on investments        | 58                                       | 473                                   | 531        | 632        |
| Mortgage loans receivable, net                    | 3,690                                    | 23,964                                | 27,654     | 26,648     |
| Due from loan servicers and insurers              | 155                                      | 1,950                                 | 2,105      | 2,131      |
| Other assets                                      | 20                                       | –                                     | 20         | 38         |
| Total current assets                              | 37,752                                   | 145,866                               | 183,618    | 193,714    |
| Non-current Assets                                |                                          |                                       |            |            |
| Restricted investments                            | 5,477                                    | 56,559                                | 62,036     | 60,504     |
| Mortgage loans receivable, net                    | 116,025                                  | 1,206,916                             | 1,322,941  | 1,319,841  |
| Debt service arrears receivable, net              | 595                                      | 5,822                                 | 6,417      | 5,566      |
| Supplemental mortgages and other loans, net       | 928                                      | 23,825                                | 24,753     | 24,133     |
| Deferred bond issuance costs, net                 | 451                                      | 8,854                                 | 9,305      | 9,167      |
| Real estate owned                                 | 352                                      | 1,867                                 | 2,219      | 901        |
| Due from other funds                              | –                                        | 993                                   | 993        | –          |
| Total noncurrent assets                           | 123,828                                  | 1,304,836                             | 1,428,664  | 1,420,112  |
| Total assets                                      | 161,580                                  | 1,450,702                             | 1,612,282  | 1,613,826  |
| <b>Liabilities</b>                                |                                          |                                       |            |            |
| Current liabilities                               |                                          |                                       |            |            |
| Bonds and obligations, net                        | 2,690                                    | 26,540                                | 29,230     | 38,965     |
| Accrued interest payable on bonds and obligations | 681                                      | 14,003                                | 14,684     | 15,621     |
| Interfund allocation                              | 69                                       | 2,859                                 | 2,928      | 2,767      |
| Total current liabilities                         | 3,440                                    | 43,402                                | 46,842     | 57,353     |
| Noncurrent liabilities                            |                                          |                                       |            |            |
| Bonds and obligations, net                        | 65,935                                   | 1,306,140                             | 1,372,075  | 1,354,230  |
| Other noncurrent liabilities                      | 50                                       | 889                                   | 939        | 832        |
| Due to other funds                                | 3,377                                    | –                                     | 3,377      | 10,426     |
| Total non-current liabilities                     | 69,362                                   | 1,307,029                             | 1,376,391  | 1,365,488  |
| Total liabilities                                 | 72,802                                   | 1,350,431                             | 1,423,233  | 1,422,841  |
| Net assets:                                       |                                          |                                       |            |            |
| Restricted under bond and obligation resolutions  | 88,778                                   | 100,271                               | 189,049    | 190,985    |
| Total net assets                                  | \$ 88,778                                | \$ 100,271                            | \$ 189,049 | \$ 190,985 |

# New Jersey Housing and Mortgage Finance Agency

## Schedule of Revenues, Expenses and Changes in Fund Net Assets – Single Family Housing Program

Years Ended December 31, 2009 and 2008  
(In Thousands)

|                                                             | 2009                                     |                                       |            | 2008       |
|-------------------------------------------------------------|------------------------------------------|---------------------------------------|------------|------------|
|                                                             | Home Buyer<br>Revenue Bond<br>Resolution | Housing<br>Revenue Bond<br>Resolution | Total      | Total      |
| <b>Operating revenues</b>                                   |                                          |                                       |            |            |
| Interest income on mortgages loans                          | \$ 12,277                                | \$ 63,352                             | \$ 75,629  | \$ 67,546  |
| Other income, net                                           | —                                        | 44                                    | 44         | 92         |
| Total operating revenues                                    | 12,277                                   | 63,396                                | 75,673     | 67,638     |
| <b>Operating expenses</b>                                   |                                          |                                       |            |            |
| Interest and amortization of bond premiums<br>and discounts | 9,337                                    | 57,282                                | 66,619     | 55,844     |
| Insurance costs                                             | 154                                      | 4                                     | 158        | 317        |
| Servicing fees and other                                    | 777                                      | 4,160                                 | 4,937      | 4,471      |
| Salaries and related benefits                               | 184                                      | 4,210                                 | 4,394      | 3,985      |
| Professional services and financing costs                   | 14                                       | 248                                   | 262        | 246        |
| General and administrative expenses                         | 55                                       | 976                                   | 1,031      | 865        |
| Provision for loan losses                                   | 53                                       | 3,421                                 | 3,474      | 2,639      |
| Total operating expenses                                    | 10,574                                   | 70,301                                | 80,875     | 68,367     |
| Operating income (loss)                                     | 1,703                                    | (6,905)                               | (5,202)    | (729)      |
| <b>Nonoperating revenues(expenses)</b>                      |                                          |                                       |            |            |
| Investment income                                           | 1,148                                    | 2,217                                 | 3,365      | 5,920      |
| Gain (loss) on sale of real estate owned                    | 6                                        | 18                                    | 24         | (14)       |
| Loss on early extinguishment of old debt                    | (46)                                     | (177)                                 | (223)      | (151)      |
| Total nonoperating revenues (expenses), net                 | 1,108                                    | 2,058                                 | 3,166      | 5,755      |
| Income (loss) before transfers                              | 2,811                                    | (4,847)                               | (2,036)    | 5,026      |
| Transfers                                                   | (12,268)                                 | 12,368                                | 100        | (38)       |
| Increase (decrease) in net assets                           | (9,457)                                  | 7,521                                 | (1,936)    | 4,988      |
| Net assets, beginning of year                               | 98,235                                   | 92,750                                | 190,985    | 185,997    |
| Net assets, end of year                                     | \$ 88,778                                | \$ 100,271                            | \$ 189,049 | \$ 190,985 |

# New Jersey Housing and Mortgage Finance Agency

## Schedule of Net Assets – Multi-Family Housing Program

As of December 31, 2009 and 2008  
(In Thousands)

|                                                | 2009                                     |            |            |            |              | 2008         |
|------------------------------------------------|------------------------------------------|------------|------------|------------|--------------|--------------|
|                                                | General<br>Housing<br>Loan Bond<br>Funds | 1991-I     | 1995       | 2005       | Total        | Total        |
| <b>Assets</b>                                  |                                          |            |            |            |              |              |
| Current assets:                                |                                          |            |            |            |              |              |
| Restricted cash and cash equivalents           | \$ 6,930                                 | \$ 26      | \$ 34,582  | \$ 39,419  | \$ 80,957    | \$ 52,619    |
| Restricted investments                         | 17,277                                   | –          | 1,742      | –          | 19,019       | 38,184       |
| Accrued interest receivable on investments     | –                                        | 69         | 521        | 317        | 907          | 1,036        |
| Mortgage loans receivable, net                 | 3,288                                    | 2,755      | 25,490     | 58,362     | 89,895       | 77,986       |
| Other assets                                   | –                                        | –          | 119        | 83         | 202          | 226          |
| Total current assets                           | 27,495                                   | 2,850      | 62,454     | 98,181     | 190,980      | 170,051      |
| Noncurrent assets:                             |                                          |            |            |            |              |              |
| Restricted investments                         | 921                                      | 7,549      | 57,669     | 48,689     | 114,828      | 160,166      |
| Mortgage loans receivable, net                 | 19,292                                   | 105,051    | 531,334    | 398,003    | 1,053,680    | 1,054,331    |
| Debt service arrears receivable, net           | 9                                        | –          | 1,401      | 143        | 1,553        | 1,466        |
| Supplemental mortgages and other loans,<br>net | –                                        | –          | 15,962     | 44,722     | 60,684       | 61,838       |
| Deferred bond issuance costs, net              | –                                        | –          | 3,280      | 3,389      | 6,669        | 6,702        |
| Due from other funds                           | –                                        | –          | –          | –          | –            | 54           |
| Total noncurrent assets                        | 20,222                                   | 112,600    | 609,646    | 494,946    | 1,237,414    | 1,284,557    |
| Total assets                                   | \$ 47,717                                | \$ 115,450 | \$ 672,100 | \$ 593,127 | \$ 1,428,394 | \$ 1,454,608 |

# New Jersey Housing and Mortgage Finance Agency

## Schedule of Net Assets – Multi-Family Housing Program (continued)

As of December 31, 2009 and 2008  
(In Thousands)

|                                                   | 2009                                     |          |           |           |            | 2008       |
|---------------------------------------------------|------------------------------------------|----------|-----------|-----------|------------|------------|
|                                                   | General<br>Housing<br>Loan Bond<br>Funds | 1991-I   | 1995      | 2005      | Total      | Total      |
| <b>Liabilities</b>                                |                                          |          |           |           |            |            |
| Current liabilities:                              |                                          |          |           |           |            |            |
| Bonds and obligations, net                        | \$ 5,500                                 | \$ 2,745 | \$ 32,105 | \$ 9,115  | \$ 49,465  | \$ 54,810  |
| Accrued interest payable on bonds and obligations | 299                                      | 1,329    | 4,965     | 3,641     | 10,234     | 12,038     |
| Mortgagor escrow deposits                         | 4,726                                    | —        | —         | —         | 4,726      | 5,843      |
| Interfund allocation                              | 150                                      | —        | 1,948     | 1,084     | 3,182      | 3,008      |
| Total current liabilities                         | 10,675                                   | 4,074    | 39,018    | 13,840    | 67,607     | 75,699     |
| Noncurrent liabilities:                           |                                          |          |           |           |            |            |
| Bonds and obligations, net                        | 28,245                                   | 111,250  | 543,614   | 484,050   | 1,167,159  | 1,194,756  |
| Minimum escrow requirement                        | 427                                      | —        | 5,526     | 2,875     | 8,828      | 9,034      |
| Funds held in trust for mortgagor                 | 8,322                                    | —        | 6,369     | 28,294    | 42,985     | 43,716     |
| Other noncurrent liabilities                      | —                                        | —        | 707       | 1,035     | 1,742      | 1,489      |
| Due to other funds                                | —                                        | 3        | 889       | —         | 892        | 892        |
| Total noncurrent liabilities                      | 36,994                                   | 111,253  | 557,105   | 516,254   | 1,221,606  | 1,249,887  |
| Total liabilities                                 | 47,669                                   | 115,327  | 596,123   | 530,094   | 1,289,213  | 1,325,586  |
| Net assets (deficit):                             |                                          |          |           |           |            |            |
| Unrestricted deficit                              | —                                        | —        | —         | —         | —          | (783)      |
| Restricted under bond and obligation resolutions  | 48                                       | 123      | 75,977    | 63,033    | 139,181    | 129,805    |
| Total net assets                                  | \$ 48                                    | \$ 123   | \$ 75,977 | \$ 63,033 | \$ 139,181 | \$ 129,022 |

New Jersey Housing and Mortgage Finance Agency

Schedule of Revenues, Expenses and Changes in Fund Net Assets –  
Multi-Family Housing Program

Years Ended December 31, 2009 and 2008  
(In Thousands)

|                                                          | 2009                                  |          |           |           |            | 2008       |
|----------------------------------------------------------|---------------------------------------|----------|-----------|-----------|------------|------------|
|                                                          | General<br>Housing Loan<br>Bond Funds | 1991-I   | 1995      | 2005      | Total      | Total      |
| <b>Operating revenues</b>                                |                                       |          |           |           |            |            |
| Interest income on mortgages loans                       | \$ 2,119                              | \$ 7,594 | \$ 42,995 | \$ 26,269 | \$ 78,977  | \$ 76,351  |
| Fees and charges                                         | 627                                   | 175      | 4,296     | 2,929     | 8,027      | 7,666      |
| Other income-net                                         | 48                                    | —        | —         | 891       | 939        | 1,197      |
| Total operating revenues                                 | 2,794                                 | 7,769    | 47,291    | 30,089    | 87,943     | 85,214     |
| <b>Operating expenses</b>                                |                                       |          |           |           |            |            |
| Interest and amortization of bond premiums and discounts | 2,178                                 | 8,079    | 36,178    | 22,444    | 68,879     | 74,823     |
| Insurance costs                                          | —                                     | —        | 396       | 164       | 560        | 692        |
| Servicing fees and other                                 | —                                     | 270      | —         | —         | 270        | 270        |
| Salaries and related benefits                            | —                                     | —        | 3,086     | 1,669     | 4,755      | 4,456      |
| Professional services and financing costs                | 63                                    | 7        | 202       | 145       | 417        | 447        |
| General and administrative expenses                      | —                                     | —        | 759       | 470       | 1,229      | 1,120      |
| Provision for loan losses                                | (359)                                 | —        | 18,140    | (7,470)   | 10,311     | 20,743     |
| Total operating expenses                                 | 1,882                                 | 8,356    | 58,761    | 17,422    | 86,421     | 102,551    |
| Operating income (loss)                                  | 912                                   | (587)    | (11,470)  | 12,667    | 1,522      | (17,337)   |
| <b>Nonoperating revenues (expenses)</b>                  |                                       |          |           |           |            |            |
| Investment income (loss)                                 | (81)                                  | 510      | 4,975     | 3,698     | 9,102      | 8,404      |
| Loss on early extinguishment of old debt                 | —                                     | —        | —         | (216)     | (216)      | (170)      |
| Total nonoperating revenues (expenses), net              | (81)                                  | 510      | 4,975     | 3,482     | 8,886      | 8,234      |
| Income (loss) before transfers                           | 831                                   | (77)     | (6,495)   | 16,149    | 10,408     | (9,103)    |
| Transfers                                                | —                                     | —        | —         | (249)     | (249)      | 1,782      |
| Increase (decrease ) in net assets                       | 831                                   | (77)     | (6,495)   | 15,900    | 10,159     | (7,321)    |
| Net assets, beginning of year                            | (783)                                 | 200      | 82,472    | 47,133    | 129,022    | 136,343    |
| Net assets, end of year                                  | \$ 48                                 | \$ 123   | \$ 75,977 | \$ 63,033 | \$ 139,181 | \$ 129,022 |