Financial Statements and Supplemental Financial Information

New Jersey Housing and Mortgage Finance Agency
(A Component Unit of the State of New Jersey)
December 31, 2008 and 2007
With Report of Independent Auditors

New Jersey Housing and Mortgage Finance Agency

Financial Statements and
Supplemental Financial Information

December 31, 2008 and 2007

Contents

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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, 2008 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, 2007 financial statements and, in our report dated June 16, 2008 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, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 16, during 2007, the Agency adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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 29, 2009

New Jersey Housing and Mortgage Finance Agency

Management's Discussion and Analysis

December 31, 2008 and 2007

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, 2008 and 2007. 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, 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 $2.36 billion to $2.94 billion. This was due to favorable interest rates and closing cost assistance on the Single Family programs.

- Bonds outstanding increased by 16.41% from $2.3 billion to $2.6 billion. This is primarily due to the issuance of $440 million of Single Family bonds and $98 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 19.69% from $109.3 million in 2007 to $130.9 million in 2008.

- Investments increased by 14.33%. This is a result of an increase in bond proceeds invested and increased mortgage revenues.

- Operating revenue increased 12.12% 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 19.69%, the Agency experienced a decrease of 17.7% in loan loss reserves and a decrease of salary expense of 50.75%. 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 24.23% due to the historically low interest rate environment.

- The Agency recorded $4.09 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 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 94.54%.

<u>Overall Financial Highlights – Year Ended December 31, 2007</u>:

- The Agency had an overall increase in net assets of $142.5 million due to a strong performance on investments and a contribution received from the Economic Development Authority for deposit into the Special Needs Housing Trust Fund.

- The Agency implemented GASB 45 to recognize "Other Post Employment Benefits" (OPEB) in 2007. The Agency recognized the entire unfunded actuarial liability of $28.1 million during 2007, with a net OPEB obligation of $27.7 million outstanding as of December 31, 2007. The related expense is included as part of salaries and related benefits on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

- Operating income decreased due to an increase in the provision for loan loss primarily from the decision to reserve the entire balance of the Special Needs Loans made to date in the amount of $27.3 million and the recognition of the entire OPEB liability in one year.

- The Agency received the remaining $150 million from the sale of New Jersey Economic Development Authority Motor Vehicle Surcharge Revenue Bonds to fund the Special Needs Housing Trust Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs.

- During the year ended December 31, 2007, the Agency issued a total of $107.3 million in Multi Family bonds to finance 19 new multi-family developments that contain 1,736 housing units.

- In 2007 the Agency issued $375.6 million in Single Family housing revenue bonds to finance new single-family loans. In addition, the Agency issued $47.8 million to advance refund the Home Buyer Revenue Bond Resolutions Series 1995 N&O, 1996 P&Q and 1996 R&S for a net present value savings of $2.8 million.

- The Agency originated 2,190 new single-family mortgage loans in the year ended December 31, 2007.

- The Agency's mortgage loan receivable increased by 18% from December 31, 2006 to December 31, 2007.

- Bonds outstanding increased by 12.05% from December 31, 2006 to December 31, 2007.

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 2008 compared to 2007. 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, 2008. The following table represents the comparison of net assets as of December 31, 2008, 2007 and 2006. The change between December 31, 2008 and December 31, 2007 should be read in conjunction with the financial statements.

The Agency's total assets and liabilities increased primarily as a result of an increase of bonds outstanding and the increase in mortgages loans receivable for December 31, 2008 when compared to balance at December 31, 2007.

Condensed Statement of Net Assets
(In Thousands)

	2008	2007	2006	% Change 2008/2007	% Change 2007/2006
Current and other assets	**$ 4,352,031**	$ 3,931,301	$ 3,421,014	10.7%	14.9%
Capital assets	**12,493**	12,165	12,798	2.7	(4.9)
Total assets	**4,364,524**	3,943,466	3,433,812	10.7	14.8
Current liabilities	**369,597**	348,225	334,947	6.2	4.0
Long term liabilities	**2,996,574**	2,604,426	2,248,216	15.1	15.8
Total liabilities	**3,366,171**	2,952,651	2,586,163	14.1	14.2
Net assets:					
Invested in capital assets, net of related debt	**12,493**	12,165	12,798	2.7	(4.9)
Restricted for Special Needs and under Bond Obligation Resolutions	**475,749**	498,081	314,132	(4.5)	58.6
Unrestricted	**510,111**	480,569	523,720	6.1	(8.2)
Total net assets	**$ 998,353**	$ 990,815	$ 850,650	0.8%	16.5

Net assets increased $7.5 million, however this is a relatively flat increase from last year due to an offset of an increase of mortgage interest income and increase in bond interest expense.

NJHMFA'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, 2008 and 2007. The table below summarizes the Agency's revenues and expenses for the years ended December 31, 2008 and 2007. It should be read in conjunction with the financial statements.

During 2006, the Agency elected to change its fiscal year from June 30 to December 31. As the period ended December 31, 2006 was only a six month period, condensed statements for this period have not been included below.

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

	2008	2007	% Change
Operating revenues:			
Interest income on mortgage loans	**$ 153,726**	$ 132,382	16.1%
Fees and charges	**32,030**	32,518	(1.5)
Other	**4,065**	4,399	(7.6)
	189,821	169,299	12.1
Operating expenses	**217,414**	223,631	(2.8)
Operating loss	**(27,593)**	(54,332)	(49.2)
Non-operating revenues, net	**35,131**	194,497	(81.9)
Increase in net assets	**7,538**	140,165	(94.6)
Total net assets – beginning of year	**990,815**	850,650	16.5
Total net assets – end of year	**$ 998,353**	$ 990,815	0.8%

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

	2008	2007	% Change
Operating expenses:			
Interest	**$ 130,869**	$ 109,344	19.7%
Insurance costs	**1,623**	1,896	(14.4)
Servicing fees and other	**4,875**	3,879	25.7
Salaries and related benefits	**23,519**	47,752	(50.7)
Professional services and financing costs	**1,205**	1,153	4.5
General and administrative expenses	**5,730**	6,558	(12.6)
Grant expense	**18,282**	15,003	21.9
Provision for loan losses	**31,311**	38,046	(17.7)
Total operating expenses	**$ 217,414**	$ 223,631	(2.8)%

Debt Administration

At December 31, 2008, the Agency had $2.6 billion of bond principal outstanding, net of deferral on refunding, discount and premium, an increase of 16.4% over the prior year. The following table summarizes the Agency's bonds payable outstanding at December 31, 2008, 2007 and 2006, and the changes in bonds payable. Dollars are in thousands.

				% Change	
	2008	2007	2006	2008/2007	2007/2006
Bonds Payable, Net	**$2,642,761**	$ 2,270,141	$ 2,025,985	16.4%	12.1%

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.

During the year ended December 31, 2008, the Agency converted and remarketed its $70.8 million outstanding principal amount of Single Family Housing Revenue Bonds Series 2004 I from an Auction Rate Securities Interest Rate Period to a Weekly Interest Rate Period as Variable Rate Demand Notes.

Also in 2008, the Agency issued Single Family Housing Revenue Bonds Series 2008 X, Y and Z totaling $190.9 million. Of this amount, $37.6 million was used to economically refund the SFHRB 2003 Series D. Additionally issued were Series 2008 AA & BB totaling $250 million.

Multi-Family Programs

During the year ended December 31, 2008, the Agency issued Multi-Family Housing Revenue Bonds 2008 Series 1, 2, 3, and 4 totaling $205.3 million. The $170.5 million of Series 3 bonds and $23.0 million of Series 4 bonds economically refunded the MFHRB 2001 Series C, 2003 Series B and D, and 2004 Series B and C bonds. The $5.3 million of Series 1 bonds and $6.5 million of Series 2 bonds were issued to fund the Debt Service Reserve Fund.

Also in 2008, the Agency issued Multi-Family Revenue Bonds 2008 Series A, B, and C new money bonds totaling $117.6 million to finance 18 new developments that contain 1,716 housing units. In addition, 2008 Series D, E, F, and G were issued in the amount of $176.9 million to economically refund the MFRB 2005 Series B, C and E, 2006 Series D, and 2007 Series C, D, F, and J bonds.

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, 2008
(With Comparative Summarized Financial Information as of December 31, 2007)
(In Thousands)

	Primary Government				Discretely Presented			Reporting Entity	
	Bonds and Obligation Funds				Component Units				
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	December 31, 2008 Total	December 31, 2007 Total
Assets									
Current assets:									
Cash and cash equivalents	$ 162,545	$ 52,619	$ 614,437	$ 829,601	$ 348	$ 77	$ –	**$ 830,026**	$ 809,151
Investments	1,720	38,184	15,762	55,666	–	–	–	**55,666**	51,403
Accrued interest receivable on investments	632	1,036	3,167	4,835	–	–	–	**4,835**	4,421
Mortgage loans receivable, net	26,648	77,986	4,584	109,218	–	–	–	**109,218**	90,529
Supplemental mortgages and other loans, net	–	–	5,641	5,641	–	–	–	**5,641**	1,623
Fees and other charges receivable	–	–	3,411	3,411	–	–	–	**3,411**	3,100
Due from loan servicers and insurers	2,131	–	5	2,136	–	–	–	**2,136**	2,650
Interfund allocation	–	–	5,775	5,775	–	–	(5,775)	**–**	–
Other assets	38	226	813	1,077	–	–	–	**1,077**	2,012
Total current assets	193,714	170,051	653,595	1,017,360	348	77	(5,775)	**1,012,010**	964,889
Noncurrent assets:									
Investments	60,504	160,166	256,351	477,021	–	–	–	**477,021**	414,537
Escrow deposits	–	–	–	–	183	–	–	**183**	164
Mortgage loans receivable, net	1,319,841	1,054,331	160,460	2,534,632	–	–	(1,770)	**2,532,862**	2,263,806
Debt service arrears receivable, net	5,566	1,466	74	7,106	–	–	–	**7,106**	4,660
Interest receivable on construction advances and mortgages	–	–	1,675	1,675	–	–	–	**1,675**	1,675
Supplemental mortgages and other loans, net	24,133	61,838	199,774	285,745	–	–	–	**285,745**	248,380
Deferred charges – bond issuance costs, net	9,167	6,702	–	15,869	–	–	–	**15,869**	13,267
Real estate owned	901	–	404	1,305	–	–	–	**1,305**	8,913
Real estate held for redevelopment	–	–	–	–	–	1,271	–	**1,271**	1,287
Capital assets, net	–	–	12,493	12,493	120	–	–	**12,613**	12,285
Other noncurrent assets	–	–	–	–	–	–	–	**–**	227
Due from other funds	–	54	11,264	11,318	–	–	(11,318)	**–**	–
Total non-current assets	1,420,112	1,284,557	642,495	3,347,164	303	1,271	(13,088)	**3,335,650**	2,969,201
Total assets	$ 1,613,826	$ 1,454,608	$ 1,296,090	$ 4,364,524	$ 651	$ 1,348	$ (18,863)	**$ 4,347,660**	$ 3,934,090

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statement of Net Assets (continued)

at December 31, 2008
(With Comparative Summarized Financial Information as of December 31, 2007)
(In Thousands)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single–Family Mortgage Component	Multi–Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	December 31, 2008 Total	December 31, 2007 Total
Liabilities									
Current liabilities:									
Bonds and obligations, net	$ 38,965	$ 54,810	$ –	$ 93,775	$ –	$ –	$ –	**$ 93,775**	$ 85,920
Accrued interest payable on bonds and obligations	15,621	12,038	74	27,733	–	–	–	**27,733**	21,485
Subsidy payments received in advance	–	–	11,172	11,172	–	–	–	**11,172**	11,222
Advances from the State of New Jersey for bond and housing assistance	–	–	18,945	18,945	–	–	–	**18,945**	19,096
Other current liabilities	–	–	291	291	247	72	–	**610**	798
Interfund allocation	2,767	3,008	–	5,775	–	–	(5,775)	**–**	–
Mortgagor escrow deposits	–	5,843	206,063	211,906	–	–	–	**211,906**	204,055
Total current liabilities	57,353	75,699	236,545	369,597	247	72	(5,775)	**364,141**	342,576
Noncurrent liabilities:									
Bonds and obligations, net	1,354,230	1,194,756	–	2,548,986	–	–	–	**2,548,986**	2,184,221
Minimum escrow requirement	–	9,034	762	9,796	–	–	–	**9,796**	9,550
Funds held in trust for mortgagor	–	43,716	318,283	361,999	–	–	–	**361,999**	352,223
Unearned revenues	–	–	8,572	8,572	–	–	–	**8,572**	6,841
Other non-current liabilities	832	1,489	23,775	26,096	400	3	–	**26,499**	20,751
OPEB liability	–	–	29,807	29,807	–	–	–	**29,807**	27,694
Due to other funds	10,426	892	–	11,318	1,770	–	(13,088)	**–**	–
Total non-current liabilities	1,365,488	1,249,887	381,199	2,996,574	2,170	3	(13,088)	**2,985,659**	2,601,280
Total liabilities	1,422,841	1,325,586	617,744	3,366,171	2,417	75	(18,863)	**3,349,800**	2,943,856
Net assets (deficit):									
Invested in capital assets, net of related debt	–	–	12,493	12,493	120	–	–	**12,613**	12,285
Restricted – under bond and obligation resolutions	190,985	129,805	–	320,790	–	–	–	**320,790**	322,340
Restricted for Special Needs Housing	–	–	154,959	154,959	–	–	–	**154,959**	175,741
Restricted for redevelopment	–	–	–	–	–	1,273	–	**1,273**	1,289
Unrestricted	–	(783)	510,894	510,111	(1,886)	–	–	**508,225**	478,579
Total net assets (deficit)	$ 190,985	$ 129,022	$ 678,346	$ 998,353	$ (1,766)	$ 1,273	$ –	**$ 997,860**	$ 990,234

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statement of Revenues, Expenses and Changes in Fund Net Assets

Years Ended December 31, 2008
(With Comparative Summarized Financial Information for the Year Ended December 31, 2007)
(In Thousands)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	December 31, 2008 Total	December 31, 2007 Total
Operating revenues									
Interest income on mortgage loans	$ 67,546	$ 76,351	$ 9,829	$ 153,726	$ –	$ –	$ –	**$ 153,726**	$ 132,382
Fees and charges	–	7,666	24,364	32,030	–	–	–	**32,030**	32,518
Other income-net	92	1,197	2,776	4,065	274	843	–	**5,182**	4,802
Total operating revenues	67,638	85,214	36,969	189,821	274	843	–	**190,938**	169,702
Operating expenses									
Interest and amortization of bond premiums and discounts	55,844	74,823	202	130,869	–	–	–	**130,869**	109,365
Insurance costs	317	692	614	1,623	9	–	–	**1,632**	1,896
Servicing fees and other	4,471	270	134	4,875	–	–	–	**4,875**	3,879
Salaries and related benefits	3,985	4,456	15,078	23,519	–	–	–	**23,519**	47,752
Professional services and financing costs	246	447	512	1,205	–	–	–	**1,205**	1,153
General and administrative expenses	865	1,120	3,745	5,730	–	–	–	**5,730**	6,776
Grant expense	–	–	18,282	18,282	166	859	–	**19,307**	15,003
Other expenses	–	–	–	–	–	–	–	**–**	154
Provision for loan losses	2,639	20,743	7,929	31,311	–	–	–	**31,311**	38,597
Total operating expenses	68,367	102,551	46,496	217,414	175	859	–	**218,448**	224,575
Operating income (loss)	(729)	(17,337)	(9,527)	(27,593)	99	(16)	–	**(27,510)**	(54,873)
Nonoperating revenues (expenses)									
Investment income	5,920	8,404	20,270	34,594	5	–	–	**34,599**	45,665
Contribution from State of New Jersey	–	–	–	–	–	–	–	**–**	150,000
Loss on early extinguishment of old debt	(151)	(170)	–	(321)	–	–	–	**(321)**	(760)
Gain (loss) on real estate owned	(14)	–	872	858	–	–	–	**858**	(397)
Total nonoperating revenues (expenses), net	5,755	8,234	21,142	35,131	5	–	–	**35,136**	194,508
Income (loss) before transfers	5,026	(9,103)	11,615	7,538	104	(16)	–	**7,626**	139,635
Transfers	(38)	1,782	(1,744)	–	–	–	–	**–**	–
Increase (decrease) in net assets	4,988	(7,321)	9,871	7,538	104	(16)	–	**7,626**	139,635
Net assets, beginning of year	185,997	136,343	668,475	990,815	(1,870)	1,289	–	**990,234**	850,599
Net assets, end of year	$ 190,985	$ 129,022	$ 678,346	$ 998,353	$ (1,766)	$ 1,273	$ –	**$ 997,860**	$ 990,234

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statement of Cash Flows

Year Ended December 31, 2008
(With Comparative Summarized Financial Information for the Year Ended December 31, 2007)

(In Thousands)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Total December 31, 2008	Total December 31, 2007
Cash flows from operating activities					
Receipts from interest on mortgages and loans	$ 66,362	$ 71,664	$ 9,023	**$ 147,049**	$ 130,897
Receipts from fees, charges and other	881	8,747	28,165	**37,793**	56,922
Receipts from principal payments on mortgage receivables	144,469	65,299	174,695	**384,463**	337,461
Payments to vendors and employees	(9,121)	(7,838)	(37,682)	**(54,641)**	(83,127)
Payments to mortgage purchases and advances	(399,736)	(95,191)	(229,773)	**(724,700)**	(764,759)
Payments for other	(1,322)	(117)	(2,256)	**(3,695)**	(4,315)
Receipts for funds held in trust	–	563	19,971	**20,534**	120,393
Net cash provided by (used in) operating activities	(198,467)	43,127	(37,857)	**(193,197)**	(206,528)
Cash flows from noncapital financing activities					
Receipts from proceeds of sale of bonds and obligations	440,935	499,820	–	**940,755**	1,957,005
Payments for retirement of bonds	(119,485)	(446,590)	–	**(566,075)**	(1,715,040)
Payments for interest	(52,506)	(71,530)	(9)	**(124,045)**	(113,073)
Transfers and others	(1,018)	(1,780)	427	**(2,371)**	290
Net cash provided by (used in) non-capital financing activities	267,926	(20,080)	418	**248,264**	129,182
Cash flow from capital financing activities					
Additions to capital assets	–	–	(1,712)	**(1,712)**	(539)
Contribution	–	–	–	**–**	150,000
Net cash (used in) provided by capital financing activities	–	–	(1,712)	**(1,712)**	149,461
Cash flows from investing activities					
Purchases of investments	(93,073)	(292,872)	(167,536)	**(553,481)**	(636,709)
Sales/maturities of investments	88,064	254,378	146,272	**488,714**	644,112
Earnings on investments	5,262	8,484	18,531	**32,277**	41,724
Net cash provided by (used in) investing activities	253	(30,010)	(2,733)	**(32,490)**	49,127
Net increase (decrease) in cash	69,712	(6,963)	(41,884)	**20,865**	121,242
Cash and cash equivalents, beginning of year	92,833	59,582	656,321	**808,736**	687,494
Cash and cash equivalents, end of year	$ 162,545	$ 52,619	$ 614,437	**$ 829,601**	$ 808,736

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statement of Cash Flows (continued)

Year Ended December 31, 2008
(In Thousands)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Total December 31, 2008	Total December 31, 2007
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ (729)	$ (17,337)	$ (9,527)	**$ (27,593)**	$ (54,332)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	–	–	1,202	**1,202**	1,389
Amortization of premium/discount, refunding costs, bond issue costs	34	919	–	**953**	919
Net cash provided by nonoperating activities	52,506	71,530	9	**124,045**	113,073
Changes in operating assets and liabilities:					
Loans, net	(260,535)	(13,979)	(49,451)	**(323,965)**	(388,167)
Fees and other charges receivable	–	–	(311)	**(311)**	(541)
Due from loan servicers and insurers	492	20	2	**514**	(236)
Deferred charges – bond issuance costs, net	(3,187)	585	–	**(2,602)**	(2,137)
Other assets	9	72	1,081	**1,162**	(790)
Due to/from other funds	8,409	(962)	(7,448)	**(1)**	–
Accrued interest payable on bonds	4,429	1,745	74	**6,248**	1,005
Advance from the State of New Jersey	–	–	(151)	**(151)**	(204)
Funds held in trust for mortgagor	–	1,633	8,143	**9,776**	78,554
Minimum escrow requirement	–	199	47	**246**	(102)
Mortgagor escrow deposits	–	(1,266)	9,117	**7,851**	12,123
Subsidy payments received in advance	–	–	(50)	**(50)**	1,452
Unearned revenue	–	–	1,731	**1,731**	742
OPEB liability	–	–	2,113	**2,113**	27,694
Other liabilities	105	(32)	5,562	**5,635**	3,030
Net cash (used in) provided by operating activities	$ (198,467)	$ 43,127	$ (37,857)	**$ (193,197)**	$ (206,528)

See accompanying notes.

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.

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 $385,244 and $352,297 for the years ended December 31, 2008 and 2007, 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 $18,642 and $18,601 for the years ended December 31, 2008 and 2007, 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

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.

<u>STAR</u>

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.

<u>ABC</u>

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.

(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

In calendar year 2008, the Agency adopted the following statement issued by the GASB.

<u>GASB Statement No. 49</u> ("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

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.

(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.

(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:

Asset Class	Useful Lives
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.

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

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

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 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.

3. Summary of Significant Accounting Policies (continued)

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 $304,140 and $273,683 as of December 31, 2008 and 2007, 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).

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, 2008 and 2007.

3. Summary of Significant Accounting Policies (continued)

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.

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.

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

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 21 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, 2008 and 2007, 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 $72,175 and $163,825. Net losses of $321 and $760 for the years ended December 31, 2008 and 2007 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.

(In Thousands)

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 the 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.

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 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, banker's acceptances and funds of which the N.J. treasurer is custodian.

(In Thousands)

5. Investments and Deposits (continued)

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, 2008 and 2007, the Agency's deposits amounted to $62,029 and $72,426, respectively, of which $60,285 and $71,485 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 government securities and NJ municipal securities. At December 31, 2008 and 2007, the Agency's investment in Cash Management Funds amounted to $764,319 and $728,592, 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.

5. Investments and Deposits (continued)

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 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

(In Thousands)

5. Investments and Deposits (continued)

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 21 – Derivatives.

As of December 31, 2008 and 2007, the Agency had the following investments, maturities and credit quality.

	Fair Value		**Weighted-Average Maturity (years)**		**Credit Ratings**	
	December 31, 2008	**December 31, 2007**	**December 31, 2008**	**December 31, 2007**	**S&P**	**Moody's**
Investment Type						
Guaranteed Investment Contracts	**$ 233,011**	$ 195,840	**19.10**	18.69	Unrated	Unrated
U.S. Treasury Securities	**106,006**	79,030	**2.28**	2.59	AAA	Aaa
Federal Agency Notes	**3,584**	3,057	**23.55**	24.56	AAA	Aaa
U.S. Government and Agency-Backed Securities	**89,972**	60,937	**1.70**	1.92	AAA	Aaa
Non-Agency Mortgage-Backed Securities	**10,271**	14,181	**2.16**	2.17	AAA	Aaa
Commercial Paper	**2,049**	15,458	**0.09**	0.05	A-1+	P-1
Asset Backed Securities	**12,977**	22,356	**1.11**	1.03	AAA	Aaa
Corporate Notes	**73,221**	73,946	**2.47**	2.37	AAA to A-	Aaa to Baa1
New Jersey Cash Management Fund and Merrill Lynch CMA	**764,319**	728,592	**N/A**	N/A	Unrated	Unrated
Other Short-Term Instruments	**1,596**	1,135	**0.01**	0.01	Unrated	Unrated
Subtotal	**1,297,006**	1,194,532				
Less amount reported as cash equivalents	**(764,319)**	(728,592)				
Total investments	**$ 532,687**	$ 465,940				

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

(In Thousands)

5. Investments and Deposits (continued)

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, 2008 was $29,084.

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.

The following table shows investments in issuers that represent 5 percent or more of total investments at December 31, 2008 and 2007:

	Percentage of Total Investments			
Issuer	**December 31, 2008**		**December 31, 2007**	
NATIXIS Funding Corporation	**$ 108,267**	**20.32%**	$ 134,280	28.81%
Rabobank	**44,096**	**8.28%**	–	–
GE Capital Corporation	**37,770**	**7.09%**	11,622	2.49%
Federal National Mortgage Association	**35,682**	**6.70%**	22,632	4.86%
Federal Home Loan Mortgage Corporation	**35,516**	**6.67%**	25,178	5.40%

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, 2008 and 2007, the Agency did not invest in any repurchase agreements.

(In Thousands)

5. Investments and Deposits (continued)

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 $42,761 and $7,329 as of December 31, 2008 and 2007, 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 $28,179 and $21,495 as of December 31, 2008 and 2007, 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 $71,319 and $146,110 and the Single-Family component had $8,324 and $9,588 of Surety Bonds outstanding as of December 31, 2008 and 2007, respectively.

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, 2008 and 2007 is:

	2008	**2007**
Interest income on investments	**$ 30,931**	$ 40,735
Unrealized gain (loss) on investments	**3,663**	4,919
	$ 34,594	$ 45,654

(In Thousands)

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, 2008 and 2007 are as follows:

	December 31	
	2008	**2007**
Mortgage loans receivable	**$ 1,333,494**	$ 1,088,114
Unearned discounts – net	**(26)**	(43)
Loan origination costs – net	**22,440**	17,620
Commitment fees – net	**(2,527)**	(2,832)
Allowance for loan losses	**(6,892)**	(5,771)
Mortgage receivable – net	**1,346,489**	1,097,088
Less current portion	**(26,648)**	(22,796)
Long term portion	**$ 1,319,841**	$ 1,074,292

Multi-Family Housing Component

The Multi-Family Housing Component of the Agency's mortgage loans receivable as of December 31, 2008 and 2007 consisted of the following:

	December 31	
	2008	**2007**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 223,759**	$ 249,043
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**228,331**	221,131
Unsubsidized mortgage loans	**758,769**	720,357
Subtotal	**1,210,859**	1,190,531
Allowance for loan losses	**(77,570)**	(72,999)
Undisbursed mortgage loans	**(972)**	(652)
Mortgage receivable – net	**1,132,317**	1,116,880
Less current portion	**(77,986)**	(63,961)
Long term portion	**$ 1,054,331**	$1,052,919

(In Thousands)

6. Mortgage Loans Receivable (continued)

General Fund Component

The General Fund mortgage loans receivable as of December 31, 2008 and 2007 consisted of the following:

	December 31 2008	December 31 2007
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 21,550**	$ 21,883
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**28,194**	26,494
Unsubsidized mortgage loans	**176,325**	152,757
Unearned discounts – net	**(65)**	(71)
Loan origination costs – net	**82**	105
Subtotal	**226,086**	201,168
Allowance for loan losses	**(55,619)**	(53,946)
Undistributed mortgage proceeds	**(5,423)**	(5,084)
Mortgage receivable – net	**165,044**	142,138
Less current portion	**(4,584)**	(3,772)
Long term portion	**$ 160,460**	$ 138,366

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.

(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 $84,226 and $68,917 at December 31, 2008 and 2007, respectively. The debt service allowance for loan losses was $78,586 and $65,633 as of December 31, 2008 and 2007, respectively. A subsidy payment receivable of $1,466 and $1,376 was due at December 31, 2008 and 2007, 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 $40,825 and $36,228 against interest receivable was recorded at December 31, 2008 and 2007. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to $294,118 and $320,233 as of December 31, 2008 and 2007, 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.

(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, 2008 and 2007, consisted of the following:

	December 31	
	2008	**2007**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 844**	$ 1,491
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**5,404**	7,753
Agency supplemental mortgages	**212,972**	171,258
Special Needs Housing Trust Fund mortgages	**48,300**	33,993
HUD supplemental mortgages	**881**	881
Loans to projects	**16,470**	15,318
State of New Jersey supplemental mortgages	**12,488**	12,772
Other	**4,400**	4,502
Subtotal	**301,759**	247,968
Allowance for loan losses	**(40,989)**	(35,174)
Allowance for Special Needs Housing Trust	**(46,289)**	(27,267)
Undisbursed supplemental mortgage proceeds	**(9,066)**	(13,429)
Supplemental mortgages and other loans receivable, net	**205,415**	172,098
Less current portion	**(5,641)**	(1,623)
Long term portion	**$ 199,774**	$ 170,475

Multi Family Housing Component

The Multi-Family Housing Component of the Agency's supplemental mortgage receivable and other loans as of December 31, 2008 and 2007, consisted of the following:

	December 31	
	2008	**2007**
Supplemental mortgages	**$ 70,038**	$ 75,165
Construction advances	**3,591**	–
Subtotal	**73,629**	75,165
Allowance for loan losses	**(11,791)**	(12,915)
Long term portion	**$ 61,838**	$ 62,250

(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 $24,133 and $15,655 as of December 31, 2008 and 2007, respectively.

9. Capital Assets

Capital assets are summarized as follows:

	Balance Dec 31, 2007	Additions	Deletions	Balance 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

	Balance Dec 31, 2006	Additions	Deletions	Balance Dec 31, 2007
Non-depreciable capital assets:				
Land	$ 1,225	$ –	$ –	$ 1,225
Depreciable capital assets:				
Building and building improvements	21,171	79	–	21,250
Motor vehicles	521	–	–	521
Machinery and equipment	5,041	620	(307)	5,354
Furniture and fixtures	289	28	–	347
Total	27,022	757	(307)	27,472
Less accumulated depreciation:				
Building and building improvements	(10,683)	(1,157)	–	(11,840)
Motor vehicles	(386)	(67)	–	(453)
Machinery and equipment	(3,616)	(686)	307	(3,995)
Furniture and fixtures	(213)	(31)	–	(244)
Total	(14,898)	(1,941)	307	(16,532)
Total capital assets, net	$ 13,349	$ (1,184)	$ –	$ 12,165

(In Thousands)

9. Capital Assets (continued)

Depreciation expense was $1,202 and $1,941 for the years ended December 31, 2008 and 2007, 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, 2008 the following bonds and obligations:

Description of Bonds as Issued	Bonds Outstanding December 31, 2007	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2008	Amount Due Within One Year
Single Family					
Home Buyer Revenue Bonds:					
1997 Series T, 4.90% to 5.60%, 2007 to 2017	$ 2,825	$ –	$ 475	**$ 2,350**	$ 490
1997 Series U, 4.90% to 5.85%, 2004 to 2029	57,915	–	5,050	**52,865**	2,890
1998 Series V, 4.75% to 5.25%, 2009 to 2026	19,865	–	–	**19,865**	725
1998 Series W, 4.30% to 4.75%, 2004 to 2017	6,480	–	2,065	**4,415**	2,155
1998 Series X, 5.25% to 5.35%, 2012 to 2029	3,365	–	2,930	**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	28,925	–	8,160	**20,765**	8,620
2000 Series BB, 4.35% to 5.30%, 2004 to 2017	19,915	–	2,445	**17,470**	2,565
2000 Series CC, 4.90% to 5.875%, 2017 to 2031	37,330	–	4,135	**33,195**	–
2003 Series FF, variable rate, 2009 to 2025	46,355	–	21,520	**24,835**	–
Total Home Buyer Revenue Bonds	238,105	–	46,780	**191,325**	17,445
Housing Revenue Bonds:					
2003 Series C, 1.65% to 5.00%, due 2005 to 2033	11,985	–	2,865	**9,120**	555
2003 Series D-1, variable rate, due 2014 to 2023	13,565	–	13,565	**–**	–
2003 Series D-2, variable rate, due 2024 to 2034	24,015	–	24,015	**–**	–
2004 Series G, 1,.60% to 4.25%, due 2005 to 2015	9,825	–	3,175	**6,650**	3,290
2004 Series H, 3,.95% to 5.25%, due 2011 to 2034	19,670	–	3,875	**15,795**	–
2004 Series I, variable rate, due 2025 to 2034	74,950	–	4,965	**69,985**	365
2005 Series L, 2.625% to 4.35%, due 2006 to 2017	11,680	–	865	**10,815**	890
2005 Series M, 4.87% to 5.00%, due 2026 to 2036	14,130	–	3,090	**11,040**	–
2005 Series N, variable rate, due 2017	33,905	–	2,890	**31,015**	2,980
2005 Series O, variable rate, due 2026 to 2031	79,950	–	–	**79,950**	–
2005 Series P, variable rate, due 2008 to 2025	22,160	–	1,475	**20,685**	1,585
2005 Series Q, variable rate, due 2010 to 2032	63,600	–	1,400	**62,200**	–
2005 Series R, variable rate, due 2031 to 2038	33,355	–	740	**32,615**	–
2007 Series S, 3.60% to 4.05%, due 2008 to 2017	52,940	–	4,095	**48,845**	4,555
2007 Series T, 4.55% to 5.25%, due 2022 to 2047	140,535	–	2,740	**137,795**	–
2007 Series U, 3.60% to 5%, due 2008 to 2037	78,625	–	430	**78,195**	885

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding December 31, 2007	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2008	Amount Due Within One Year
Single Family (continued)					
Housing Revenue Bonds (continued):					
2007 Series V, variable rate, due 2037	$ 96,375	$ –	$ –	**$ 96,375**	$ –
2007 Series W, 5.27%, due 2032	50,000	–	2,520	**47,480**	2,745
2008 Series X, 3.25% to 5.375%, due 2030	–	75,225	–	**75,225**	1,645
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	–	**170,915**	2,025
2008 Series BB, variable rate, due 2039	–	79,085	–	**79,085**	
Total Housing Revenue Bonds	831,265	440,935	72,705	**1,199,495**	21,520
Total Single Family	1,069,370	440,935	119,485	**1,390,820**	38,965
Net premium on bonds payable	3,579			**2,929**	
Deferred bond refunding costs	(302)			**(554)**	
Total Single Family Bonds Payable (net)	1,072,647			**1,393,195**	
Multi Family					
General Housing Loan Bonds:					
1970 Series A, 4.50%, due 2004 to 2019	2,330	–	150	**2,180**	155
1971 Series A, 5.35% to 5.40%, due 2004 to 2019	15,515	–	1,145	**14,370**	1,195
1972 Series A, 5.70% to 5.80%, due 2004 to 2013	10,640	–	2,185	**8,455**	2,320
1972 Series B, 5.20% to 5.25%, due 2004 to 2021	23,480	–	1,455	**22,025**	1,540
Subtotal General Housing Loan Bonds	51,965	–	4,935	**47,030**	5,210
Multi-Family Housing Revenue:					
1991 Series I, (Presidential Plaza) 6.50% to 7.00%, due 2004 to 2030	118,945	–	2,390	**116,555**	2,560
Multi-Family Housing Revenue Bonds					
1995 Resolution:					
1997 Series A, 4.45% to 5.65%, due 2004 to 2040	46,015	–	605	**45,410**	635
1997 Series C, 6.47% to 7.42%, due 2004 to 2040	5,620	–	105	**5,515**	20
1999 Series A, 3.95% to 5.15%, due 2004 to 2030	17,775	–	420	**17,355**	445
1999 Series B, 3.85% to 4.70%, due 2004 to 2013	890	–	165	**725**	175
1999 Series C, 5.97% to 7.12%, due 2004 to 2030	5,190	–	105	**5,085**	110
2000 Series A1, 5.10% to 6.35%, due 2004 to 2032	14,130	–	265	**13,865**	290

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding December 31, 2007	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2008	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds					
1995 Resolution (continued):					
2000 Series A2, 5.10% to 6.35%, due 2004 to 2029	$ 2,610	$ –	$ 60	**$ 2,550**	$ 60
2000 Series B, 5.00% to 6.25%, due 2004 to 2026	29,380	–	1,740	**27,640**	1,930
2000 Series C,1 8.38%, due 2004 to 2032	40,035	–	535	**39,500**	595
2000 Series C2, variable rate, due 2004 to 2032	5,620	–	80	**5,540**	80
2000 Series E1, 4.65% to 5.75%, due 2004 to 2025	42,770	–	3,190	**39,580**	3,350
2000 Series E2, 4.65% to 5.75%, due 2004 to 2025	2,770	–	120	**2,650**	125
2000 Series F, 7.93%, due 2004 to 2031	15,620	–	230	**15,390**	250
2000 Series G, 4.65% to 5.35%, due 2004 to 2013	1,725	–	250	**1,475**	265
2001 Series A, 3.10% to 5.05%, due 2004 to 2034	22,010	–	1,505	**20,505**	1,570
2001 Series B, 6.64%, due 2004 to 2032	12,730	–	225	**12,505**	245
2001 Series C, variable rate, due 2007 to 2033	48,275	–	48,275	**–**	–
2002 Series A, 2.40% to 4.25%, due 2004 to 2010	11,915	–	4,165	**7,750**	4,340
2002 Series B, variable rate, due 2004 to 2023	14,875	–	645	**14,230**	675
2002 Series C, 2.90% to 4.95%, due 2004 to 2015	33,180	–	4,815	**28,365**	5,020
2002 Series D, 5.50%, due 2004 to 2022	1,620	–	80	**1,540**	80
2002 Series E, 7.00%, due 2004 to 2022	3,690	–	150	**3,540**	160
2002 Series F, 3.75% to 5.40%, due 2004 to 2016	38,935	–	10,525	**28,410**	10,135
2002 Series G, variable rate, due 2004 to 2025	5,440	–	180	**5,260**	200
2003 Series A, 1.40% to 5.05%, due 2004 to 2044	29,150	–	670	**28,480**	740
2003 Series B, variable rate, due 2004 to 2033	32,150	–	32,150	**–**	–
2003 Series C, 1.20% to 4.70%, due 2004 to 2033	3,420	–	60	**3,360**	65
2003 Series D, variable rate, due 2004 to 2035	12,950	–	12,950	**–**	–
2004 Series A, 1.80% to 3.75%, due 2006 to 2014	13,950	–	1,850	**12,100**	1,990
2004 Series B, variable rate, due 2007 to 2046	90,590	–	90,590	**–**	–
2004 Series C, variable rate, due 2006 to 2037	10,270	–	10,270	**–**	–
2004 Series D, 1.70% to 5.20%, due 2006 to 2046	27,285	–	5,020	**22,265**	720
2008 Series 1, 5.75%, due 2038	–	5,280	–	**5,280**	570
2008 Series 2, variable rate, due 2046	–	6,490	–	**6,490**	–
2008 Series 3, variable rate, due 2046	–	170,465	550	**169,915**	1,125
2008 Series 4, variable rate, due 2037	–	23,045	180	**22,865**	365
Total	642,585	205,280	232,725	**615,140**	36,330

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding December 31, 2007	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2008	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds					
2005 Resolution:					
2005 Series A1, 2.20% to 4.95%, due 2005 to 2046	$ 26,805	$ –	$ 365	**$ 26,440**	$ 385
2005 Series A2, 4.95%, due 2040 to 2046	5,000	–	–	**5,000**	–
2005 Series B, variable rate, due 2005 to 2039	24,850	–	24,850	**–**	–
2005 Series C, variable rate, due 2005 to 2045	4,250	–	4,250	**–**	–
2005 Series D, 2.00% to 4.70%, due 2005 to 2030	31,190	–	1,330	**29,860**	1,455
2005 Series E, variable rate, due 2005 to 2029	43,050	–	43,050	**–**	–
2005 Series F, variable rate, due 2005 to 2040	18,715	–	5,720	**12,995**	360
2005 Series G, variable rate, due 2007 to 2047	4,815	–	55	**4,760**	50
2006 Series A, variable rate, due 2006 to 2028	23,825	–	775	**23,050**	810
2006 Series B, variable rate, due 2006 to 2028	10,190	–	1,010	**9,180**	1,065
2006 Series C, 4.90% to 5.00% due 2007 to 2026	5,205	–	80	**5,125**	80
2006 Series D, variable rate, due 2007 to 2048	45,770	–	45,770	**–**	–
2006 Series E, 4.65% to 4.80%, due 2007 to 2036	5,220	–	75	**5,145**	75
2007 Series A, 3.75% to 4.95%, due 2008 to 2048	31,370	–	4,630	**26,740**	–
2007 Series B, 5.39% to 61.3%, due 2017 to 2037	4,765	–	65	**4,700**	70
2007 Series C, variable rate, due 2011 to 2037	13,380	–	13,380	**–**	–
2007 Series D, variable rate, due 2008 to 2038	3,540	–	3,540	**–**	–
2007 Series F, variable rate, due 2008 to 2042	46,620	–	46,620	**–**	–
2007 Series G, variable rate, due 2008 to 2034	26,095	–	540	**25,555**	710
2007 Series H, variable rate, due 2008 to 2028	1,165	–	30	**1,135**	35
2007 Series I, variable rate, due 2008 to 2029	10,275	–	950	**9,325**	1,155
2007 Series J, variable rate, due 2008 to 2039	7,610	–	7,610	**–**	–
2008 Series A, 2.5% to 6.0%, due 2009 to 2050	–	10,185	–	**10,185**	125
2008 Series B, variable rate, due 2008 to 2048	–	96,785	10	**96,775**	145
2008 Series C, variable rate, due 2009 to 2039	–	10,625	–	**10,625**	70
2008 Series D, 2.75% to 5.20%, due 2008 to 2019	–	23,450	645	**22,805**	1,610
2008 Series E, 2.00% to 5.63%, due 2008 to 2029	–	42,000	1,100	**40,900**	2,350
2008 Series F, variable rate, due 2019 to 2048	–	96,125	–	**96,125**	–
2008 Series G, variable rate, due 2008 to 2039	–	15,370	90	**15,280**	160
Total 2005 Bond Resolution	393,705	294,540	206,540	**481,705**	10,710
Total Multi-Family Bonds Program	1,207,200	499,820	446,590	**1,260,430**	54,810
Net discount on bonds payable	(229)			**(472)**	
Deferred bond refunding costs	(9,477)			**(10,392)**	
Total Multi-Family Bonds Payable (net)	1,197,494			**1,249,566**	
Total Bonds Payable	$ 2,270,141			**$ 2,642,761**	

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 on the FHLB Discount Note rate plus a fixed spread. Generally, note resets occur quarterly, monthly or weekly.

(In Thousands)

10. Bonds and Obligations (continued)

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, 2008 and 2007, there was $55,466 and $47,286, 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 $1,390,820 and $1,040,498, respectively, and on Multi Family debt $1,260,430 and $1,061,876, respectively, with annual requirements ranging from $102,030 and $123,229 for Single Family and Multi Family in 2009 to $637 and $155 for Single Family and Multi Family in the final years. For the current year, principal and interest paid by the Agency was $131,699 and $150,768 for Single Family and Multi Family, respectively.

(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:

	Fixed and Unhedged Variable Rate		Hedged Variable Rate				Total Interest
Agency Component	**Principal**	**Interest**	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Principal**	**Rate Swaps, Net**
Single Family							
2009	$ 34,400	$ 40,122	$ 4,565	$ 10,307	$ 12,636	$ 38,965	$ 63,065
2010	33,340	39,694	5,610	8,723	13,736	38,950	62,153
2011	34,025	38,085	6,240	8,585	13,657	40,265	60,327
2012	25,170	36,580	6,285	8,446	13,561	31,455	58,587
2013	24,945	35,393	6,540	8,291	13,493	31,485	57,177
2014-2018	139,340	158,094	54,670	38,769	64,434	194,010	261,297
2019-2023	158,860	122,883	86,300	31,460	56,080	245,160	210,423
2024-2028	162,020	84,731	93,090	21,882	44,943	255,110	151,556
2029-2033	126,720	43,092	136,000	11,248	31,533	262,720	85,873
2034-2038	92,190	13,253	141,350	3,982	11,879	233,540	29,114
2039-2043	–	306	17,885	101	324	17,885	731
2044-2048	1,275	195	–	–	–	1,275	195
	$ 832,285	$ 612,428	$ 558,535	$ 151,794	$ 276,276	1,390,820	$ 1,040,498
Add unamortized premium						2,929	
Less unamortized deferral on refunding						(554)	
						$ 1,393,195	

(In Thousands)

10. Bonds and Obligations (continued)

	Fixed and Unhedged Variable Rate		Hedged Variable Rate				Total
Agency Component	**Principal**	**Interest**	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Principal**	**Interest Rate Swaps, Net**
Multi-Family							
2009	$ 48,595	$ 42,202	$ 6,215	$ 15,022	$ 11,195	$ 54,810	$ 68,419
2010	45,400	39,933	5,695	14,549	11,511	51,095	65,993
2011	42,700	37,783	5,695	14,378	11,468	48,395	63,629
2012	41,185	35,648	7,750	14,201	11,362	48,935	61,211
2013	39,765	33,494	7,880	13,921	11,199	47,645	58,614
2014-2018	137,450	142,525	53,930	64,755	52,616	191,380	259,896
2019-2023	132,660	102,257	79,670	53,943	44,590	212,330	200,790
2024-2028	112,870	65,026	88,150	40,167	33,051	201,020	138,244
2029-2033	89,395	29,896	69,925	26,510	21,995	159,320	78,401
2034-2038	41,000	12,713	62,195	15,266	13,462	103,195	41,441
2039-2043	15,890	4,951	60,020	7,329	7,089	75,910	19,369
2044-2048	10,235	1,907	54,585	1,728	2,164	64,820	5,799
2049-2053	1,575	70	–	–	–	1,575	70
	$ 758,720	$ 548,405	$ 501,710	$ 281,769	$ 231,702	1,260,430	$ 1,061,876
Net discount on bonds payable						(472)	
Unamortized deferral on refunding						(10,392)	
						$ 1,249,566	

11. Bonds and Obligations Refunding

Single-Family Mortgage Component

In late 2007 and 2008, several factors (bond insurer downgrades, credit and liquidity concerns among market participants, capital adequacy pressures) combined to force broker/dealers to stop bidding on Auction Rate Securities (ARS), including the Agency's single family ARS portfolio. The result, on a market-wide basis, was auction rate resets at historically high levels.

On April 30, 2008, the Agency converted and remarketed its $70,800 outstanding principal amount of Single Family Housing Revenue Bonds, 2004 Series I (AMT) from an ARS Interest Rate Period to a Weekly Interest Rate Period as Variable Rate Demand Notes (VRDNs). The remarketing of the 2004 Series I bonds was undertaken by the Agency in order to mitigate the ARS problems described above.

On May 1, 2008, the Agency issued $190,935 in Single Family Housing Revenue Bonds consisting of Series X, Fixed (AMT), Series Y, Variable (AMT) and Series Z, Variable (AMT).

11. Bonds and Obligations Refunding (continued)

The Series Z bonds, in the amount of $37,580 and issued with a Weekly Interest Rate Period as VRDNs, refunded Single Family Housing Revenue Bonds Resolution 2003 Series D, which were in an ARS Interest Rate Period mode. The refunding of the 2003 Series D bonds was undertaken by the Agency in order to mitigate the ARS problems described above.

Multi-Family Mortgage Component

In 2008, the Agency's multi-family ARS portfolio experienced similar problems to those of the Agency's single family ARS portfolio, as described above. Additionally, as a result of the volatile market conditions present throughout 2008, certain major bond insurers were downgraded below AAA by one or more of the major rating agencies. The Agency had previously utilized two of the affected bond insurers, FGIC and MBIA, to provide bond insurance on various multi-family bond issues. The ratings downgrades experienced by these bond insurers contributed additional pressure to the market-wide liquidity crunch, and caused the Agency's FGIC-insured and MBIA-insured multi-family VRDN portfolio to reset at historically wider levels as compared to their respective benchmarks. Subsequently, all or portions of several of the Agency's multi-family VRDN bond issues were tendered by investors to the liquidity providers, and were then held by the liquidity providers in the form of bank bonds.

On August 21, 2008, the Agency issued $205,280, in Multi-Family Housing Revenue Bonds, 2008 Series 1, Fixed (Non-AMT), Series 2, Variable (Non-AMT), Series 3, Variable (AMT), and Series 4, Variable (Federally Taxable). The $170,465 of Series 3 bonds and $23,045 of Series 4 bonds, both issued with a Weekly Interest Rate Period as VRDNs, refunded $193,510 of outstanding 2001 Series C, 2003 Series B and D, and 2004 Series B and C bonds, which were in an ARS Interest Rate Period mode. The refunding of the 2001 Series C, 2003 Series B and D, and 2004 Series B and C bonds was undertaken by the Agency in order to mitigate the ARS problems and bond insurer issues described above.

On August 21, 2008, the Agency issued $294,540, in Multi-Family Revenue Bonds, 2008 Series A, Fixed (Non-AMT), Series B, Variable (Non-AMT), Series C, Variable (Federally Taxable), Series D, Fixed (AMT), Series E, Fixed (Non-AMT), Series F, Variable (AMT) and Series G, Variable (Federally Taxable). Series B, C, F and G were all issued with a Weekly Interest Rate Period as VRDNs. The $23,450 of Series D bonds, $42,000 of Series E bonds, $96,125 of Series F bonds and $15,370 of Series G bonds, refunded $176,945 of outstanding 2005 Series B, C and E, 2006 Series D, and 2007 Series C, D, F and J bonds. 2005 Series B, C and E were in an ARS

11. Bonds and Obligations Refunding (continued)

Interest Rate Period mode. 2006 Series D and 2007 Series C, D, F and J were VRDNs, but were insured by either FGIC or MBIA. The refunding of the 2005 Series B, C and E, 2006 Series D, and 2007 Series C, D, F, and J bonds was undertaken by the Agency in order to mitigate the ARS problems and bond insurer issues described above, as well as to convert out of and repay all outstanding multi-family bank bonds.

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, 2008 and 2007 the bonds outstanding was $8,350.

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, 2008 and 2007, Capital Fund Program Bonds outstanding aggregated $89,190 and $92,640, respectively.

(In Thousands)

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.

Funds held in trust for mortgagors as of December 31, 2008 and 2007 include the following:

	December 31	
	2008	**2007**
Multi-Family Housing Component	**$ 43,716**	$ 42,083
General Fund:		
Community development escrows	**5,164**	5,089
Development cost escrows	**8,765**	10,539
Other funds held in trust	**304,354**	294,512
Total General Fund	**318,283**	310,140
Total	**$ 361,999**	$ 352,223

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, 2008 and 2007 include the following:

	December 31	
	2008	**2007**
Multi-Family Housing Component	**$ 5,843**	$ 7,109
General Fund:		
Reserve for repairs and replacements	**161,877**	154,803
Tax and insurance escrows	**44,186**	42,143
Total General Fund	**206,063**	196,946
Total	**$ 211,906**	$ 204,055

(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. 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 $4,087 for year ended December 31, 2008.

(In Thousands)

16. 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, 2008 and 2007.

	December 31, 2008	**December 31, 2007**
ABC Corporation	**$ 537**	$ 537
Affordable Rental Housing Subsidy Loan Program	**3,202**	4,887
Agency CIAP	**738**	1,236
Aging Out of Foster Care	**1,300**	1,300
Asbury Park Initiative PILOT	**500**	500
At Home Downtown	**3,980**	3,980
Bond Refunding Proceeds	**6,206**	6,972
Camden Initiative	**763**	1,486
Carteret Senior Living	**–**	432
CHOICE	**46,752**	17,528
CIAP Loan Program	**1,172**	1,430
City Living	**16,000**	19,520
Energy Benchmarking	**50**	–
Equity Gap Program	**135**	135
Ex-Offenders Re-Entry Housing Program	**37**	45
Foreclosure Prevention/Homeownership Refinance	**1,664**	500
Home Ownership for Permanency Program	**–**	2,194
Homeless Management Information System	**100**	100
HOPE	**500**	500
Information Technology	**714**	875
Kinship Care Home Loan Program	**154**	3,000
Lanning Square West UHORP #229	**–**	68
Life Safety Rehabilitation	**153**	153
Live Where You Work	**1,000**	–
MONI HIF	**21,158**	25,444
Multi-Family Rental Investment Program	**420**	420
NJHMFA portion of Undisbursed Mtg. Proceeds	**4,614**	5,790

(In Thousands)

16. Net Assets (continued)

	December 31, 2008	**December 31, 2007**
Non-Bond Multi-Family Program	**$ 7,781**	$ 12,506
Paragon Village #1316	**132**	132
PLAN Fund	**5,000**	5,000
Policy and Community Initiatives	**93**	115
Portfolio Disposition	**37**	37
Portfolio Reserve Balance	**5,270**	5,924
Preservation Initiatives	**25**	25
Public Outreach Initiatives	**541**	541
Reserve for Loan Losses	**5,700**	5,700
Roebling School Renaissance Zone Fund	**100**	100
Royal Court	**497**	497
Shore Easy	**92**	92
Single Family Counseling	**127**	127
Small Rental Project Preservation Loan Program	**15,246**	16,727
Smart Living	**–**	15,000
Smart Start	**100**	100
Social Investment Policy	**250**	1,500
Strategic Zone Lending Pool	**34,486**	5,682
Transitional Housing Loans	**1,382**	1,258
UHORP HIF	**1,200**	20,178
UHORP Mortgage Commitment	**13,626**	9,418
Urban Statewide Acquisition-NJUSA	**5,740**	5,740
West End Housing Development UHORP #501	**–**	75
Welcome Home Program	**4,120**	–
Work Force Initiative	**3,000**	3,000
	$ 216,394	$ 206,098

(In Thousands)

16. Net Assets (continued)

Changes in net assets are summarized as follows:

	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total
Net assets at December 31, 2006	$ 13,469	$ 315,501	$ 521,629	$ 850,599
Income	–	–	139,635	139,635
Acquisition of capital assets	757	–	(757)	–
Transfer	–	183,869	(183,869)	–
Depreciation on capital assets	(1,941)	–	1,941	–
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**

17. 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.

(In Thousands)

17. Pension Plan (continued)

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

Public Employees Retirement System

Period	Normal Contribution	Accrued Liability	Total Liability	Funded by State	Paid by Agency
Fiscal year ended December 31, 2008	$ 573	$ 442	$ 1,015	$ 203	$ 812
Fiscal year ended December 31, 2007	505	262	767	307	460[1]
Six months ended December 31, 2006	253	131	384	154	230

(1) 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 for which the Agency did not qualify.

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, 2008 and 2007, and the six-months ended December 31, 2006 were $105, $101, and $51, respectively.

(In Thousands)

17. Pension Plan (continued)

Installments due by the Agency at December 31, 2008 are as follows:

2009	$ 107
2010	112
2011	116
2012	121
2013	126
2014-2018	707
2019-2023	786
2024-2028	834
2029-2033	1,015
2034-2035	228
	$ 4,152

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

18. Post Employment Benefits

Effective for the year ended December 31, 2007, the Agency adopted 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 during the fiscal year ended December 31, 2007.

18. 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, 2008 and 2007, the Agency paid $2,207 and $2,298, respectively, in health insurance premiums for current employees. The Agency also paid $466 and $452 for the years ended December 31, 2008 and 2007, respectively, towards benefits for 50 and 49 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, 2008 and 2007 and the related information for the plan are as follows (dollar amounts in thousands):

(In Thousands)

18. Post Employment Benefits (continued)

	2008	2007
Annual required contribution	**$ 1,639**	$ 28,146
Interest on net OPEB obligation	**940**	–
Annual OPEB cost	**2,579**	28,146
Contributions made	**(466)**	(452)
Increase in net OPEB obligation	**2,113**	27,694
Net OPEB obligation, beginning of year	**27,694**	–
Net OPEB obligation, end of year	**$ 29,807**	$ 27,694

The Plan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 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, 2008	$ 2,579	18.1%	$ 29,807
December 31, 2007	28,146	1.6	27,694

The actuarial accrued liability for benefits was $25,297, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $14,163 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 180.7%.

The actuarial valuation date is January 1, 2007. 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 will provide multiyear trend information, when available, that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(In Thousands)

18. 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, 2007 actuarial valuation, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate of 9% medical and grading down to an ultimate rate of 5% effective 2011 and thereafter.

19. 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.

20. 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.

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.

(In Thousands)

20. Reserve for Interest Rebate (continued)

The Agency has elected to establish a reserve account in the amount of $734 and $559 for the years December 31, 2008 and 2007, respectively, for the Multi-Family Bond Resolution Fund and $250 and $371 at December 31, 2008 and 2007, respectively, for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

21. 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. All derivatives are valued at their fair value.

Terms, Fair Values, and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps and caps as of December 31, 2008, 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.

(In Thousands)

21. 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	$ (2,565)	Bear Stearns Financial Products, Inc.****	Aaa / AAA / -
SHRB* 2004 I-3	19,775	19,775	8/5/2004	10/1/2034	4.625%	68.2% of 1-Mo LIBOR + 27bp	(121)	Bear Stearns Financial Products, Inc.****	Aaa / AAA / -
SHRB* 2005 N	31,015	18,785	10/1/2006	10/1/2017	4.055%	68% of 1-Mo LIBOR or SIFMA + 1bp**	(2,582)	Bear Stearns Financial Products, Inc.****	Aaa / AAA / -
SHRB* 2005 O-1	47,025	47,025	4/1/2006	10/1/2026	4.396%	68% of 1-Mo LIBOR or SIFMA + 8bp***	(1,019)	Bear Stearns Financial Products, Inc.****	Aaa / AAA / -
SHRB* 2005 O-2	32,925	32,925	4/1/2006	4/1/2031	4.332%	68% of 1-Mo LIBOR or SIFMA + 8bp***	(2,637)	Bear Stearns Financial Products, Inc.****	Aaa / AAA / -
SHRB* 2005 P/Q/R	115,500	85,625	11/1/2006	4/1/2038	4.797%	USD-SIFMA Municipal Swap Index	(6,438)	UBS AG	Aa2 / A+ / A+
SHRB* 2005 P/Q/R	–	29,710	4/1/2007	4/1/2038	3.927%	68% of 1-Mo LIBOR + 18bp	(3,291)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
SHRB* 2007 V	96,375	96,375	11/8/2007	10/1/2037	4.060%	69% of 1-Mo LIBOR	(14,860)	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	(9,836)	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	(1,370)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
SHRB* 2008 Z-2	24,015	24,015	10/1/2008	10/1/2034	4.025%	69% of 1-Mo LIBOR	(2,357)	Bank of America, N.A.	Aa2 / AA- / A+
SHRB* 2008 BB*****	79,085	79,085	3/1/2009	10/1/2039	3.504%	68% of 1-Mo LIBOR	(10,427)	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.

**** Effective May 30, 2008, Bear Stearns Financial Products, Inc. is a wholly owned subsidiary of JP Morgan Chase & Co.

***** At December 31, 2008, the swap notional amount outstanding was $0; however, the notional amount listed above will be applicable at the swap effective date.

(In Thousands)

21. Derivative Instruments (continued)

Multi-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)
MHRB* 2002-G	$ 5,260	$ 5,260	10/2/2002	5/1/2025	6.2450%	1-Mo LIBOR	$ (1,589)	Merrill Lynch Capital Services, Inc. (MLCS)	A1 / A+ / A+
MHRB 2008-3	169,915	47,970	11/1/2002	5/1/2029	4.9888%	USD-SIFMA Municipal Swap Index	(11,720)	Merrill Lynch Capital Services, Inc. (MLCS)	A1 / A+ / A+
MHRB 2008-3		31,050	11/1/2003	5/1/2033	4.3355%	USD-SIFMA Municipal Swap Index	(5,354)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
MHRB 2008-3		90,590	5/1/2005	11/1/2046	4.0010%	67% of 1-Mo LIBOR + 18bp	(16,615)	Bank of America, N.A.	Aa2 / AA- / A+
MHRB 2008-4	22,865	12,750	5/8/2003	5/1/2035	5.2810%	1-Mo LIBOR	(3,167)	Bank of America, N.A.	Aa2 / AA- / A+
MHRB 2008-4		9,850	5/1/2004	11/1/2037	5.3150%	1-Mo LIBOR	(2,626)	JPMorgan Chase Bank, N.A.	Aa1 / AA- / AA-
MRB** 2005-F	12,995	12,890	8/10/2005	5/1/2040	4.2190%	USD-SIFMA Municipal Swap Index + 5bp	(948)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2005-G	4,760	4,950	11/1/2006	11/1/2047	5.4830%	1-Mo LIBOR	(932)	Bank of America, N.A.	Aa2 / AA- / A+
MRB 2006-A	23,050	23,050	3/15/2006	5/1/2028	3.7150%	63% of 1-Mo LIBOR + 20.5 bp	(2,697)	Royal Bank of Canada, New York	Aaa / AA- / AA
MRB 2006-B	9,180	9,180	3/15/2006	5/1/2028	5.4220%	1-Mo LIBOR	(1,453)	Bank of America, N.A.	Aa2 / AA- / A+
MRB 2007-G	25,555	25,555	11/1/2007	5/1/2034	4.0100%	63% of 1-Mo LIBOR + 20.5 bp	(4,011)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2007-I	9,325	9,325	11/1/2007	5/1/2029	5.9100%	1-Mo LIBOR	(1,948)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-B	96,775	25,516	8/21/2008	5/1/2048	4.6330%	USD-SIFMA Municipal Swap Index	(9,676)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-B– HMFA# 2190 – Royal Crescent		3,700	10/1/2008	11/1/2038	4.4950%	USD-SIFMA Municipal Swap Index + 33bp	(606)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-B– HMFA# 1426 – Heritage Village at Manalapan ***		3,115	1/1/2009	11/1/2038	4.4500%	USD-SIFMA Municipal Swap Index + 33bp	(495)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-C	10,625	4,885	11/1/2008	5/1/2040	5.7120%	1-Mo LIBOR	(1,777)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-C – HMFA# 2265 – Sharp Road ***		2,700	10/1/2009	11/1/2039	6.1460%	1-Mo LIBOR + 80bp	(870)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-F	96,125	13,300	5/1/2006	11/1/2039	4.3900%	USD-SIFMA Municipal Swap Index	(1,898)	JPMorgan Chase Bank, N.A.	Aa1 / AA- / AA-
MRB 2008-F		40,900	2/10/2005	11/1/2029	3.4080%	67% of 1-Mo LIBOR + 18bp	(3,098)	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB 2008-F		33,365	11/1/2006	5/1/2046	4.0493%	60.8% of 1-Mo LIBOR + 34 bp	(7,202)	Bank of America, N.A.	Aa2 / AA- / A+
MRB 2008-F		12,604	10/30/2007	5/1/2042	4.6120%	USD-SIFMA Municipal Swap Index + 5bp	(675)	Merrill Lynch Capital Services, Inc. (MLCS)	A1 / A+ / A+
MRB 2008-G	15,280	4,200	11/1/2005	5/1/2036	5.4350%	1-Mo LIBOR	(1,064)	JPMorgan Chase Bank, N.A.	Aa1 / AA- / AA-
MRB 2008-G		3,535	11/1/2008	11/1/2038	5.6025%	1-Mo LIBOR	(1,205)	Bank of America, N.A.	Aa2 / AA- / A+
MRB 2008-G		7,550	10/30/2007	11/1/2039	5.8715%	1-Mo LIBOR	(1,334)	Bank of America, N.A.	Aa2 / AA- / A+

* Multi-Family Housing Revenue Bonds

** Multi-Family Revenue Bonds

*** At December 31, 2008, the swap notional amount outstanding was $0; however, the notional amount listed above will be applicable at the swap effective date.

(In Thousands)

21. Derivative Instruments (continued)

Multi-Family Rate Lock Swaps/Swaptions

Associated Bond Issue*	Swap Notional Amount	Swap/ Swaption Trade Date	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
HMFA# 1437 - Trenton Prospect House	$ 1,550	2/1/2006	8/1/2008	11/1/2038	5.566%	1-Mo LIBOR + 25bp	$ (480)	Lehman Brothers Special Financing Inc.	WR / NR / NR
HMFA# 1352 - King Plaza Apartments	8,575	12/14/2006	11/1/2008	11/1/2038	5.516%	1-Mo LIBOR + 25bp	(2,775)	Lehman Brothers Special Financing Inc.	WR / NR / NR
HMFA# 2101 - Acorn Straight Apartments	1,620	2/15/2008	5/1/2009	5/1/2039	5.857%	1-Mo LIBOR + 40bp	(549)	Lehman Brothers Special Financing Inc.	WR / NR / NR
HMFA# 2171 - Royal Oaks Apartments	1,470	2/28/2008	8/1/2009	11/1/2047	5.886%	1-Mo LIBOR + 40bp	(525)	Lehman Brothers Special Financing Inc.	WR / NR / NR
HMFA# 2272 - Toms River Crescent	4,085	1/15/2008	9/1/2009	11/1/2039	5.342%	1-Mo LIBOR + 25bp	(1,171)	Lehman Brothers Special Financing Inc.	WR / NR / NR
HMFA# 2393 – Patriot's Cove	2,110	8/20/2008	1/1/2010	1/1/2040	4.901%	USD-SIFMA Municipal Swap Index + 80bp	(284)	Lehman Brothers Special Financing Inc.	WR / NR / NR

* These projects are anticipated to be funded under the MFRB resolution in 2009.

** At December 31, 2008, the swap notional amount outstanding was $0; however, the notional amount listed above will be applicable at the swap effective date.

(In Thousands)

21. 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 Bond Issue		Hedged Variable Rate Bonds Outstanding	Cap Notional Amount Outstanding	Cap Effective Date	Cap Maturity Date	Strike Rate	Variable Rate Index	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
MRB**	2005-F	$ 12,995	$ 5,375	8/10/2005	5/1/2009	4.5000%	USD-SIFMA Municipal Swap Index	$ –	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB	2008-F	96,125	9,845	8/3/2006	5/1/2009	5.5000%	USD-SIFMA Municipal Swap Index	–	Lehman Brothers Special Financing Inc.	WR / NR / NR
MRB	2008-F	–	10,545	4/18/2007	5/1/2011	4.6420%	USD-SIFMA Municipal Swap Index	1	JPMorgan Chase Bank, N.A.	Aa1 / AA- / AA-
MRB	2008-F	–	33,956	10/30/2007	5/1/2011	4.5000%	USD-SIFMA Municipal Swap Index	2	The Bank of New York	Aa2 / AA- / AA-

** Multi-Family Revenue Bonds

(In Thousands)

21. Derivative Instruments (continued)

Credit Risk

As of December 31, 2008, 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 20 percent of the notional amount of swaps outstanding is held with a single counterparty. That counterparty is rated Aa2/AA-/A+. All other swaps are held with separate counterparties. Those counterparties are rated A1/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.

(In Thousands)

21. 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.

22. 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	$ 3,751
Single-Family Housing Revenue Bond Resolution	9,442
Multi-Family Housing Revenue Bond Resolution	2,847
Multi-Family Revenue Bond Resolution	845
Other Multi-Family Bond Resolutions	154
	$ 17,039

(In Thousands)

22. Interfund Receivables, Payables and Transfers (continued)

Receivable fund	
General fund	$ 17,039
Interfund transfers:	
Transfers in:	
Single-Family Housing Revenue Bond Resolution	$ 22,475
Multi-Family Housing Revenue Bond Resolution	85
Multi-Family Revenue Bond Resolution	1,697
	$ 24,257
Transfers out:	
General fund	$ 1,744
Single-Family Home Buyer Revenue Bond Resolution	22,513
	$ 24,257

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

23. 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, 2008, the available line of credit was $4,464 and had $7,772 aggregate amount outstanding which was comprised of four (4) separate fixed rate amortizing advances. Repayments on the advances vary from remaining periods amortizing over 7-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.

(In Thousands)

24. Subsequent Events

On January 8, 2009, the Agency received all invested principal and interest from Multi-Family guaranteed investment contracts (GICs) with Natixis Funding Corp. and IXIS Funding Corp. These GICs were terminated as a result of a Rating Agency downgrade of the GIC provider guarantor. The value of these investments was $37,308 with interest received of $13,609.

On February 10, 2009, the Agency received $12,000 of Contributed Capital from the State of New Jersey to administer a Single Family foreclosure mediation and counseling program. On April 1, 2009, the Agency received $15,000 from the State of New Jersey as Contributed Capital to effectuate a program the Housing Assistance and Recovery Program and $25,000 to initiate a Mortgage Stabilization Program. These funds are restricted for use as mandated by legislation to help alleviate the current foreclosure crisis within the state.

Meadow Brook Conversion and Remarketing

On May 15, 2009 (the "Conversion Date"), upon achieving certain occupancy and other criteria, the Agency converted and remarketed its $8,350 original aggregate principal amount of conduit debt Variable Rate Demand Multifamily Housing Revenue Bonds (Meadow Brook Apartments Project), 2006 Series A (the "2006 Series A Bonds"). On the Conversion Date, all 2006 Series A Bonds were subject to mandatory tender and purchase. Proceeds from the $1,520 of 2006 Series A Bonds that had been used to fund the borrower's short term note were used to redeem bonds. Proceeds from the $6,830 of 2006 Series A Bonds that funded the borrower's permanent loan were converted and remarketed from the initial reset rate to the weekly variable rate. Also on the Conversion Date, the JP Morgan Chase Bank direct pay letter of credit that had secured the 2006 Series A Bonds was replaced by a direct pay irrevocable transferable credit enhancement instrument (the "Credit Facility") issued by Fannie Mae. The Credit Facility provides credit enhancement and liquidity support for the 2006 Series A Bonds.

On June 11, 2009, The Legislature of the State of New Jersey introduced bill No. 4106, which directs the Agency to transfer up to $12 million in unencumbered reserves to the State for the rental assistance program.

On June 18, 2009, the Board authorized 1) the issuance of up to $85 million of Multi-Family bonds, including the authority to purchase up to $30 million of its own taxable bonds; and 2) the amendment to the Agency's Investment Policy to include Agency bonds as an eligible investment.

Required Supplementary Information

New Jersey Housing and Mortgage Finance Agency

Schedule of Funding Progress

As of December 31, 2008 and 2007
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2007	$ –	$ 25,597	$ 25,597	0%	$14,163	180.7%

Supplemental Financial Information

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Single Family Housing Program

As of December 31, 2008 and 2007
(In Thousands)

	2008			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**2007 Total**
Assets				
Current assets				
Cash and cash equivalents	**$ 28,473**	**$ 134,072**	**$ 162,545**	$ 92,833
Investments	**1,720**	**–**	**1,720**	–
Accrued interest receivable on investments	**217**	**415**	**632**	622
Mortgage loans receivable, net	**8,871**	**17,777**	**26,648**	22,796
Due from loan servicers and insurers	**385**	**1,746**	**2,131**	2,623
Other assets	**38**	**–**	**38**	47
Total current assets	**39,704**	**154,010**	**193,714**	118,921
Non-current Assets				
Investments	**16,289**	**44,215**	**60,504**	56,688
Mortgage loans receivable, net	**235,980**	**1,083,861**	**1,319,841**	1,074,292
Debt service arrears receivable, net	**1,105**	**4,461**	**5,566**	3,186
Supplemental mortgages and other loans, net	**942**	**23,191**	**24,133**	15,655
Deferred bond issuance costs, net	**1,523**	**7,644**	**9,167**	5,980
Real estate owned	**349**	**552**	**901**	625
Total noncurrent assets	**256,188**	**1,163,924**	**1,420,112**	1,156,426
Total assets	**295,892**	**1,317,934**	**1,613,826**	1,275,347
Liabilities				
Current liabilities				
Bonds and obligations, net	**17,445**	**21,520**	**38,965**	30,355
Accrued interest payable on bonds and obligations	**2,496**	**13,125**	**15,621**	11,192
Interfund allocation	**191**	**2,576**	**2,767**	2,025
Total current liabilities	**20,132**	**37,221**	**57,353**	43,572
Noncurrent liabilities				
Bonds and obligations, net	**173,880**	**1,180,350**	**1,354,230**	1,042,292
Other noncurrent liabilities	**85**	**747**	**832**	727
Due to other funds	**3,560**	**6,866**	**10,426**	2,759
Total non-current liabilities	**177,525**	**1,187,963**	**1,365,488**	1,045,778
Total liabilities	**197,657**	**1,225,184**	**1,422,841**	1,089,350
Net assets:				
Restricted under bond and obligation resolutions	**98,235**	**92,750**	**190,985**	185,997
Total net assets	**$ 98,235**	**$ 92,750**	**$ 190,985**	$ 185,997

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, 2008 and 2007
(In Thousands)

	2008			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**2007 Total**
Operating revenues				
Interest income on mortgages loans	**$ 14,734**	**$ 52,812**	**$ 67,546**	$ 49,255
Other income, net	**–**	**92**	**92**	169
Total operating revenues	**14,734**	**52,904**	**67,638**	49,424
Operating expenses				
Interest and amortization of bond premiums and discounts	**10,232**	**45,612**	**55,844**	43,992
Insurance costs	**162**	**155**	**317**	468
Servicing fees and other	**930**	**3,541**	**4,471**	3,365
Salaries and related benefits	**304**	**3,681**	**3,985**	2,826
Professional services and financing costs	**31**	**215**	**246**	122
General and administrative expenses	**76**	**789**	**865**	717
Provision for loan losses	**(256)**	**2,895**	**2,639**	2,201
Total operating expenses	**11,479**	**56,888**	**68,367**	53,691
Operating income (loss)	**3,255**	**(3,984)**	**(729)**	(4,267)
Nonoperating revenues/(expenses)				
Investment income	**2,469**	**3,451**	**5,920**	10,628
Loss on sale of real estate owned	**(6)**	**(8)**	**(14)**	(373)
Loss on early extinguishment of old debt	**(48)**	**(103)**	**(151)**	(470)
Total nonoperating revenues (expenses), net	**2,415**	**3,340**	**5,755**	9,785
Income (loss) before transfers	**5,670**	**(644)**	**5,026**	5,518
Transfers	**(22,513)**	**22,475**	**(38)**	524
Increase (decrease) in net assets	**(16,843)**	**21,831**	**4,988**	6,042
Net assets, beginning of year	**115,078**	**70,919**	**185,997**	179,955
Increase (decrease) in net assets, during period	**(16,843)**	**21,831**	**4,988**	6,042
Net assets, end of year	**$ 98,235**	**$ 92,750**	**$ 190,985**	$185,997

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Multi-Family Housing Program

As of December 31, 2008 and 2007
(In Thousands)

	2008					
	General Housing Loan Bond Funds	**1991-I**	**1995**	**2005**	**Total**	**2007 Total**
Assets						
Current assets:						
Cash and cash equivalents	**$ 7,212**	**$ 9**	**$ 34,823**	**$ 10,575**	**$ 52,619**	$ 59,582
Investments	**22,941**	**–**	**1,634**	**13,609**	**38,184**	30,021
Accrued interest receivable on investments	**–**	**77**	**557**	**402**	**1,036**	1,214
Mortgage loans receivable, net	**3,612**	**2,570**	**29,605**	**42,199**	**77,986**	63,961
Due from loan servicers and insurers	**–**	**–**	**–**	**–**	**–**	20
Other assets	**–**	**–**	**144**	**82**	**226**	298
Total current assets	**33,765**	**2,656**	**66,763**	**66,867**	**170,051**	155,096
Noncurrent assets:						
Investments	**927**	**7,655**	**61,442**	**90,142**	**160,166**	129,558
Mortgage loans receivable, net	**26,733**	**107,806**	**567,296**	**352,496**	**1,054,331**	1,052,919
Debt service arrears receivable, net	**9**	**–**	**1,313**	**144**	**1,466**	1,376
Supplemental mortgages and other loans, net	**–**	**–**	**16,967**	**44,871**	**61,838**	62,250
Deferred bond issuance costs, net	**–**	**–**	**3,554**	**3,148**	**6,702**	7,287
Due from other funds	**–**	**–**	**–**	**54**	**54**	–
Total noncurrent assets	**27,669**	**115,461**	**650,572**	**490,855**	**1,284,557**	1,253,390
Total assets	**$ 61,434**	**$ 118,117**	**$ 717,335**	**$ 557,722**	**$ 1,454,608**	$ 1,408,486

New Jersey Housing and Mortgage Finance Agency

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

As of December 31, 2008 and 2007
(In Thousands)

	2008					
	General Housing Loan Bond Funds	**1991-I**	**1995**	**2005**	**Total**	**2007 Total**
Liabilities						
Current liabilities:						
Bonds and obligations, net	**$ 5,210**	**$ 2,560**	**$ 36,330**	**$ 10,710**	**$ 54,810**	$ 55,565
Accrued interest payable on bonds and obligations	**420**	**1,358**	**6,603**	**3,657**	**12,038**	10,293
Mortgagor escrow deposits	**5,843**	**–**	**–**	**–**	**5,843**	7,109
Interfund allocation	**150**	**–**	**1,959**	**899**	**3,008**	3,930
Total current liabilities	**11,623**	**3,918**	**44,892**	**15,266**	**75,699**	76,897
Noncurrent liabilities:						
Bonds and obligations, net	**41,820**	**113,995**	**575,440**	**463,501**	**1,194,756**	1,141,929
Minimum escrow requirement	**496**	**–**	**5,970**	**2,568**	**9,034**	8,835
Funds held in trust for mortgagor	**8,278**	**–**	**7,144**	**28,294**	**43,716**	42,083
Other noncurrent liabilities	**–**	**–**	**529**	**960**	**1,489**	1,521
Due to other funds	**–**	**4**	**888**	**–**	**892**	878
Total noncurrent liabilities	**50,594**	**113,999**	**589,971**	**495,323**	**1,249,887**	1,195,246
Total liabilities	**62,217**	**117,917**	**634,863**	**510,589**	**1,325,586**	1,272,143
Net assets (deficit):						
Unrestricted deficit	**(783)**	**–**	**–**	**–**	**(783)**	–
Restricted under bond and obligation resolutions	**–**	**200**	**82,472**	**47,133**	**129,805**	136,343
Total net assets	**$ (783)**	**$ 200**	**$ 82,472**	**$ 47,133**	**$ 129,022**	$ 136,343

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, 2008 and 2007
(In Thousands)

	2008					
	General Housing Loan Bond Funds	**1991-I**	**1995**	**2005**	**Total**	**2007 Total**
Operating revenues						
Interest income on mortgages loans	**$ 2,661**	**$ 7,847**	**$ 43,809**	**$ 22,034**	**$ 76,351**	$ 78,358
Fees and charges	**736**	**95**	**4,270**	**2,565**	**7,666**	7,734
Other income-net	**66**	**–**	**704**	**427**	**1,197**	442
Total operating revenues	**3,463**	**7,942**	**48,783**	**25,026**	**85,214**	86,534
Operating expenses						
Interest and amortization of bond premiums and discounts	**2,744**	**8,250**	**41,721**	**22,108**	**74,823**	65,221
Insurance costs	**–**	**–**	**520**	**172**	**692**	810
Servicing fees and other	**–**	**270**	**–**	**–**	**270**	455
Salaries and related benefits	**–**	**–**	**3,168**	**1,288**	**4,456**	5,348
Professional services and financing costs	**52**	**7**	**230**	**158**	**447**	166
General and administrative expenses	**–**	**–**	**717**	**403**	**1,120**	1,258
Provision for loan losses	**2,253**	**–**	**15,469**	**3,021**	**20,743**	14,880
Total operating expenses	**5,049**	**8,527**	**61,825**	**27,150**	**102,551**	88,138
Operating income (loss)	**(1,586)**	**(585)**	**(13,042)**	**(2,124)**	**(17,337)**	(1,604)
Nonoperating revenues/(expenses)						
Investment income	**571**	**576**	**3,924**	**3,333**	**8,404**	10,145
Loss on early extinguishment of old debt	**–**	**–**	**(1)**	**(169)**	**(170)**	(290)
Total nonoperating revenues (expenses), net	**571**	**576**	**3,923**	**3,164**	**8,234**	9,855
Income (loss) before transfers	**(1,015)**	**(9)**	**(9,119)**	**1,040**	**(9,103)**	8,251
Transfers	**–**	**–**	**85**	**1,697**	**1,782**	35,503
Increase (decrease) in net assets	**(1,015)**	**(9)**	**(9,034)**	**2,737**	**(7,321)**	43,754
Net assets, beginning of year	**232**	**209**	**91,506**	**44,396**	**136,343**	92,589
Increase (decrease) in net assets, during period	**(1,015)**	**(9)**	**(9,034)**	**2,737**	**(7,321)**	43,754
Net assets, end of year	**$ (783)**	**$ 200**	**$ 82,472**	**$ 47,133**	**$ 129,022**	$ 136,343