

**UTAH HOUSING CORPORATION**  
**(A Component Unit of the State of Utah)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2009**

This section of the Utah Housing Corporation's (the Corporation) annual financial report presents management's discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2009. It is intended to be read in conjunction with the Corporation's financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

The financial highlights of the Corporation as of June 30, 2009 compared with prior year balances are as follows:

- Total assets decreased \$49.3 million (-2.4%)
- Cash and cash equivalents increased \$16.9 million (26.3%)
- Noncurrent investments decreased \$46.1 million (-9.3%)
- Single-family mortgage loans decreased \$50.0 million (-4.9%)
- Multi-family mortgage loans increased \$14.3 million (7.1%)
- Interest on cash and investments decreased \$7.8 million (-25.6%)
- Interest on loans increased \$5.5 million (8.0%)
- Current maturities on bonds payable increased \$12.4 million (10.1%)
- Bonds payable decreased \$64.7 million (-3.7%)
- Operating revenues increased \$0.9 million (0.9%)
- Operating expenses increased \$11.0 million (11.6%)
- Operating income before fair value adjustments decreased \$12.7 million (-111.9%)
- Total net assets increased \$3.2 million (1.4%)

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of three parts: Management's Discussion and Analysis; the Financial Statements, including Notes to the Financial Statements; and Supplemental Information. The Corporation is an independent public corporation, is self-supporting, and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Corporation. These statements are presented in a manner similar to a private business, such as mortgage banking, mortgage servicing, real estate development, commercial lending, construction management, and private consulting. Summary information is presented for separate mortgage revenue bond programs in the Supplemental Information. More detailed information is not presented in this report, however separate accounts are maintained for each activity to control and manage those designated financial transactions.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2009**

**FINANCIAL ANALYSIS OF THE CORPORATION**

The following table summarizes the changes in net assets between June 30, 2009 and 2008 (in thousands):

	2009	2008	Change	
			Amount	Percentage
Current assets	\$ 262,560	\$ 238,149	\$ 24,411	10.3 %
Noncurrent assets:				
Loans receivable	37,398	35,908	1,490	4.1
Capital assets, net	6,398	6,632	(234)	(3.5)
Other assets	5,277	5,857	(580)	(9.9)
Restricted assets:				
Cash and cash equivalents	26,518	19,138	7,380	38.6
Investments	448,295	494,463	(46,168)	(9.3)
Loans receivable	1,185,671	1,220,527	(34,856)	(2.9)
Deferred bond financing costs	11,510	12,338	(828)	(6.7)
Other assets	1,538	1,421	117	8.2
<b>TOTAL ASSETS</b>	<b>\$ 1,985,165</b>	<b>\$ 2,034,433</b>	<b>\$ (49,268)</b>	<b>(2.4) %</b>
Current liabilities	\$ 192,686	\$ 175,771	\$ 16,915	9.6 %
Bonds payable, net of current portion	1,550,239	1,627,378	(77,139)	(4.7)
Deferred revenue	8,210	-	8,210	
Other liabilities	636	1,075	(439)	(40.8)
<b>TOTAL LIABILITIES</b>	<b>\$ 1,751,771</b>	<b>\$ 1,804,224</b>	<b>\$ (52,453)</b>	<b>(2.9) %</b>
Invested in capital assets, net of related debt	\$ 3,709	\$ 3,459	\$ 250	7.2 %
Restricted	173,931	170,652	3,279	1.9
Unrestricted	55,754	56,098	(344)	(0.6)
<b>TOTAL NET ASSETS</b>	<b>\$ 233,394</b>	<b>\$ 230,209</b>	<b>\$ 3,185</b>	<b>1.4 %</b>

The following table summarizes the changes in operating income before fair value adjustments between the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008	Change	
			Amount	Percentage
REVENUES:				
Interest on loans receivable	\$ 74,970	\$ 69,448	\$ 5,522	8.0 %
Interest on investments	22,534	30,308	(7,774)	(25.6)
Other revenues	6,960	6,425	535	8.3
<b>TOTAL REVENUES</b>	<b>\$ 104,464</b>	<b>\$ 106,181</b>	<b>\$ (1,717)</b>	<b>(1.6) %</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2009**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

	<u>2009</u>	<u>2008</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percentage</u>
<b>EXPENSES:</b>				
Interest expense	\$ 89,174	\$ 79,120	\$ 10,054	12.7 %
Salaries and benefits	4,920	4,464	456	10.2
General operating expenses	3,821	3,066	755	24.6
Loan servicing fees	3,582	3,283	299	9.1
Deferred cost amortization	4,057	4,461	(404)	(9.1)
Other	264	409	(145)	(35.5)
<b>TOTAL EXPENSES</b>	<u>\$ 105,818</u>	<u>\$ 94,803</u>	<u>\$ 11,015</u>	11.6 %
<b>OPERATING INCOME BEFORE</b>				
<b>FAIR VALUE ADJUSTMENTS</b>	<u>\$ (1,354)</u>	<u>\$ 11,378</u>	<u>\$ (12,732)</u>	(111.9) %

**OTHER FINANCIAL ANALYSIS**

For the year ended June 30, 2009, the Corporation's operating income of \$3.0 million is 40 percent of the five year operating income average. A detailed analysis of the Corporation's current operations reveals that before the fair value adjustment, the Corporation actually experiences a \$1.2 million loss. This loss represents a decrease of \$12.6 million or -110.7 percent over the prior year's operations.

The decrease was caused by the disruption of the financial markets during the fiscal year. The Corporation's interest revenue on investments was reduced \$7.8 million mainly due to a lower interest rate environment. Short-term money market interest rates can be documented at 4.4% at the beginning of fiscal year 2008, which have steadily decreased to .25 percent at the end of fiscal year 2009. This 4.15 percent drop in short-term interest rates is the cause of much of the change in the Corporation's interest revenues.

The Corporation's interest expense on bonds increased \$10.1 million or 12.7 percent. The increase was caused mainly by the increased interest paid on variable rate bonds, including bank bonds, versus the receipt of swap payments from pay-fixed, receive-variable interest rate swaps. In a healthy financial market environment, interest paid on variable rate bonds closely follows the receipt of revenues from the index-based swaps. However, during the past twelve months the distressed financial markets have exacerbated the Corporation's remarketing rates. See the debt administration section for more details.

The Corporation did increase its interest revenues on loans by \$5.5 million due to a higher loan balance for most of the fiscal year. The Corporation's portfolio of federally insured mortgage loans and large cash equivalent balance represents its financial strengths. The aggregate of these major components account for the \$12.7 million decrease in operating income before fair value adjustments.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2009**

**OTHER FINANCIAL ANALYSIS (CONTINUED)**

The following two key ratios used by rating agencies to evaluate the industry reaffirm that the Corporation remains financially strong.

The Corporation's *Adjusted Debt to Equity Ratio* (defined as total liabilities divided by the total net assets less prepaid expenses) is 7.9 times. This ratio is interpreted as having \$7.90 of debt for every dollar of equity. The Corporation's ratio is lower than the prior year's 8.3, as the Corporation continues to redeem debt even though no new debt has been issued. The Corporation's ratio has trended downward from a high of 18.3 times at the beginning of fiscal year 1993 as the Corporation's net assets have continued to grow.

The Corporation's *Net Interest Spread Ratio* (defined as total interest revenues less interest expense divided by total interest revenues) is 8.5 percent. This ratio is down from 20.7 percent in the prior fiscal year. It is a reflection of the distress of the financial markets the Corporation must operate in. It is important to highlight that this ratio indicates that the Corporation's major bond programs, taken as a whole, continue to earn a small spread, even though it has been reduced from previous years.

The fiscal year operating budget of \$5,342,800 was adequate to fund operations.

**DEBT ADMINISTRATION**

At June 30, 2009, the Corporation had total bonded debt outstanding of \$1,685,845,000, a decrease of \$64,718,000 or 3.7 percent during the fiscal year, as shown in the table below. More detailed information about the Corporation's debt is presented in Note 8 to the financial statements.

The Corporation sells variable rate bonds to meet the demands of its overall funding strategy. The variable rate bonds are subject to tender by the bondholders upon surrender to the remarketing agent. In the event the remarketing agent is unable to remarket these bonds, the variable rate bonds will be, subject to certain conditions, purchased by a liquidity facility provider. Such purchase by the provider requires the Corporation to pay an increased, predetermined interest rate on the bonds.

The Corporation had a total of \$773,190,000 weekly adjusted variable rate bonds associated with various single-family programs. As of June 30, 2009, nearly 36 percent or \$276,000,000 of these bonds had been tendered by bondholders and purchased by the liquidity facility providers, becoming bank bonds. The bondholders only tendered in bonds that were backed by liquidity facility providers who lost their strong short-term ratings. Once new liquidity facility providers with strong short-term ratings can be found, the Corporation's AAA rated variable rate bonds will be remarketed back into the market. However, current financial market conditions have made it very difficult to find new liquidity providers willing to take on new business.

Subsequent to June 30, 2009, the Corporation has been successful in finding a new liquidity facility. On July 15, 2009, \$156,410,000 of the Corporation's bank bonds were remarketed back into the market, reducing the percentage of variable rate bonds held as bank bonds from 36 percent to 15 percent. It is anticipated that the remainder of the bank bonds will be back in the market before the calendar year end.

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**Year Ended June 30, 2009**

**DEBT ADMINISTRATION (CONTINUED)**

The Corporation sold these variable rate bonds to decrease the mortgage rate and increase the volume of funding available to purchase qualified homes under the Corporation's low to moderate-income programs. Pay-fixed, receive-variable interest rate swap contracts are used to mitigate the inherent risk associated with these variable rate bonds.

These swap agreements have notional amounts that amortize in accordance with the scheduled and or anticipated reduction in the related bond liability. During the year ended June 30, 2009, the Corporation replaced all of its non-performing interest rate swaps with new financially strong counterparties. The Corporation is still potentially exposed to loss in the event of non-performance by the counter-party under the agreements or from early termination of the swap agreements. However, the Corporation does not anticipate such non-performance and expects to hold the swap agreements to the stated termination dates. Additional detailed information about the Corporation's swap contracts is presented in Note 9 to the financial statements.

The following table summarizes the changes in debt between fiscal years 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>	Percentage Increase (Decrease)
Taxable bonds payable	\$ 294,851	\$ 336,373	(12.3) %
Subordinate bonds payable	145,525	174,160	(16.4)
All other bonds payable	<u>1,245,469</u>	<u>1,240,030</u>	0.4
<b>TOTAL BONDS PAYABLE</b>	<u><b>\$ 1,685,845</b></u>	<u><b>\$ 1,750,563</b></u>	<b>(3.7) %</b>

All bonds issued by the Corporation, except general obligation bonds, are special obligations of the Corporation and are payable solely from the designated revenues and assets derived from the proceeds of the bonds, and are not legal obligations of the State of Utah or any other political subdivision thereof.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens of Utah, our constituents and investors with a general overview of the Corporation's finances and to demonstrate the Corporation's financial accountability over its resources. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at Utah Housing Corporation, 2479 Lake Park Blvd., West Valley City, Utah 84120, call (801) 902-8200 or visit our website at: [www.utahhousingcorp.org](http://www.utahhousingcorp.org).