ARTHUR ANDERSEN

MISSISSIPPI HOME CORPORATION

FINANCIAL STATEMENTS
AS OF JUNE 30, 2000 AND 1999
TOGETHER WITH AUDITORS' REPORT AND
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON COMPLIANCE AND INTERNAL CONTROLS

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of Mississippi Home Corporation:

We have audited the accompanying combined balance sheets of Mississippi Home Corporation (the Corporation, an instrumentality of the State of Mississippi) as of June 30, 2000 and 1999, and the related combined statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended. These combined financial statements and the schedules referred to below are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision, as amended) issued by the Comptroller General of 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Home Corporation as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in Schedules I, II and III is presented for purposes of additional analysis and is not a required part of the basic financial statements. This 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.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Corporation's internal controls over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants dated October 6, 2000.

Arthur Andersen LLP

Jackson, Mississippi,
October 6, 2000.

MISSISSIPPI HOME CORPORATION
COMBINED BALANCE SHEETS

ASSETS	June 30, 2000	June 30, 1999
Cash and cash equivalents:		
Cash	$ 325,598	$ 184,378
Restricted cash	3,618,248	1,045,742
Cash equivalents	259,634	1,268,599
Restricted cash equivalents	31,006,216	98,386,734
Total cash and cash equivalents	35,209,696	100,885,453
Accrued interest receivable	3,591,375	4,172,838
Investments, at fair value:		
Mortgage-backed securities	446,707,440	410,717,848
Other investments	16,862,468	12,592,073
Mortgage loans receivable, net of allowance for loan losses of $884,000 in 2000 and $929,000 in 1999	31,965,804	42,467,868
Unamortized bond issuance costs	5,713,604	6,302,599
Other assets	6,998,141	5,818,405
Total assets	$547,048,528	$582,957,084
LIABILITIES AND FUND BALANCE		
Bonds payable, net of premium or discount	$484,127,390	$506,410,953
Notes payable	15,580,190	17,539,807
Accrued interest payable	3,529,442	4,311,627
Deferred gains	2,285,879	2,413,673
Other liabilities and accrued expenses	2,696,673	2,306,114
Total liabilities	508,219,574	532,982,174
Fund balance	38,828,954	49,974,910
Total liabilities and fund balance	$547,048,528	$582,957,084

The accompanying notes are an integral part of these statements.

MISSISSIPPI HOME CORPORATION
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	For the Years Ended June 30,	
	2000	1999
REVENUES		
Interest income:		
Cash and cash equivalents	$ 3,795,885	$ 5,700,113
Mortgage-backed securities	31,078,563	28,081,883
Other investments	1,151,587	856,049
Mortgage loans receivable	3,370,586	4,199,507
Total interest income	39,396,621	38,837,552
Net depreciation in fair value of mortgage-backed securities	(11,990,571)	(7,660,960)
Reservation fees	262,764	388,687
Low income housing tax credit program	752,686	763,991
Other income	430,714	756,487
Total revenues	28,852,214	33,085,757
EXPENSES		
Interest expense	33,892,261	33,904,213
Amortization of bond issuance costs	1,049,559	1,034,478
Trust and administration fees	190,389	187,628
Mortgage related insurance	116,968	137,340
Losses on mortgage loans	670,179	45,344
Administrative expenses:		
Salaries and related benefits	1,470,929	1,286,068
Other	2,607,885	1,031,495
Total expenses	39,998,170	37,626,566
DEFICIENCY OF REVENUES OVER EXPENSES	(11,145,956)	(4,540,809)
FUND BALANCE, beginning of year	49,974,910	54,515,719
FUND BALANCE, end of year	$38,828,954	$49,974,910

The accompanying notes are an integral part of these statements

MISSISSIPPI HOME CORPORATION
COMBINED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30, 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	$(11,145,956)	$ (4,540,809)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:		
Amortization of:		
Bond issuance costs	1,049,559	1,034,478
Discounts and premiums on bonds payable, net	(131,325)	114,885
Decrease (increase) in:		
Accrued interest receivable	581,463	(318,748)
Other assets	(1,403,876)	(493,666)
(Decrease) increase in:		
Accrued interest payable	(782,185)	109,972
Deferred gains	(127,794)	(127,794)
Other liabilities and accrued expenses	390,559	558,393
Increase (decrease) in allowance for losses on mortgage loans	630,837	(233,201)
Unrealized losses on investments	11,990,571	7,660,960
Accretion of bond discount, net	561,185	606,170
Depreciation	224,140	161,559
Net cash provided by operating activities	1,837,178	4,532,199
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and redemptions of mortgage-backed securities	44,916,245	54,226,350
Purchases of mortgage-backed securities	(92,902,922)	(86,357,116)
Proceeds from maturities of investments	9,557,274	7,947,590
Purchases of investments	(13,821,152)	(11,384,806)
Mortgage loan repayments	7,816,381	11,461,473
Proceeds from sale of mortgage loans	3,942,802	-
Down payment assistance and development loans originated	(1,887,956)	(736,475)
Net cash used in investing activities	(42,379,328)	(24,842,984)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of bonds	38,754,802	98,064,293
Repayment of bonds	(61,222,852)	(72,909,250)
Proceeds from notes payable	26,920,000	41,925,000
Principal payments on notes payable	(28,879,617)	(35,080,981)
Bond issuance costs paid	(460,569)	(371,406)
Use of premium for down payment assistance	(245,371)	(1,046,224)
Net cash (used in) provided by financing activities	(25,133,607)	30,581,432
Net (decrease) increase in cash and cash equivalents	(65,675,757)	10,270,647
CASH and CASH EQUIVALENTS, beginning of year	100,885,453	90,614,806
CASH and CASH EQUIVALENTS, end of year	$ 35,209,696	$100,885,453

The accompanying notes are an integral part of these statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Mississippi Home Corporation (the Corporation), formerly known as the Mississippi Housing Finance Corporation, is a governmental instrumentality of the State of Mississippi (the State) created under the Mississippi Home Corporation Act of 1989 (the Act). Pursuant to the Act, the Corporation is authorized and empowered, among other things, to issue bonds to provide monies for financing residential housing and provide other services in regard to housing for persons and families of low and moderate income in the State. Bonds and other obligations issued by the Corporation are not a debt or liability of the State, but are secured solely by assets of the individual mortgage purchase programs. The reporting entity includes the Corporation (the primary government entity) and the Mississippi Affordable Housing Development Fund (see Note 6) for which the Corporation is primarily accountable.

Members of the Board of Directors (the Board) of the Corporation are appointed by the Governor and the Lieutenant Governor of the State. The appointed members serve four-year staggered terms and cannot be removed without cause. The Board controls the appointment of the Executive Director, who is responsible for the staffing of the Corporation. The State assumes no responsibility for the Corporation's day-to-day operations. The Board is solely responsible for reviewing, approving and revising the Corporation's budget. The State is not responsible for financing any Corporation deficit or operating deficiencies. The Corporation controls the use of surplus funds.

Accounting Method

The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States. As required by these principles, the Corporation has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989. Additionally, the Corporation has elected to apply all applicable FASB Statements and Interpretations issued after November 30, 1989, to the extent that they do not conflict with or contradict GASB pronouncements.

The Corporation's accounts 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 the assets, liabilities, fund balance, revenues and expenses of the individual mortgage purchase programs, the down payment assistance program, the Mississippi Affordable Housing Development Fund and the general corporate fund. Enterprise funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determining net income and capital maintenance.

The accompanying financial statements present the combined activities of the individual mortgage purchase programs, the down payment assistance program, the Mississippi Affordable Housing Development Fund and the general corporate fund. Since the assets of each program are generally restricted, aggregating the accounts of the separate programs does not indicate that the combined assets are available in any manner other than that provided for in the bond resolutions or other agreements of the separate programs. All interfund balances and transactions have been eliminated in the combined financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include general corporate fund cash, general corporate fund investments with original maturities of less than three months and unrestricted cash in certain other funds.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consists of proceeds from the sales of bonds pending the purchase of Government National Mortgage Association Mortgage Backed Securities (GNMA securities or certificates) and the principal and interest payments of the GNMA securities. These funds are held in guaranteed investment contracts. The indentures of the respective mortgage purchase programs stipulate that these funds may be used only for the acquisition of GNMA securities or the early redemption of the respective mortgage revenue program bonds outstanding.

Mortgage Loans Receivable, GNMA Certificates and Investments

Mortgage loans are generally secured by first liens on single-family residential properties, except certain downpayment assistance loans, which are secured by second liens. Proceeds from certain bond issues not invested in individual mortgages are principally invested in GNMA certificates, representing pools of mortgage loans originated under the respective programs. Principally all loans purchased by the Corporation are insured by the Federal Housing Authority (FHA) or private mortgage insurance, are Veterans' Administration (VA) or Farmer’s Home Administration (FmHA) guaranteed, or have a loan-to-fair value ratio of 80% or less at origination. Additionally, each mortgage loan in the 1990A&B, 1994-I and 1993B Programs is insured by a pool insurance policy, subject to certain limitations on uncovered losses. Pool policy loss limits for the 1990A&B, 1994-I and 1993B Programs are 10%, 15% and 20%, respectively, of the initial aggregate principal amounts of all mortgage loans purchased with proceeds of the related bonds.

Allowance for Losses on Mortgage Loans

Losses incurred on mortgage loans are charged to the allowance for losses on mortgage loans (the allowance). The allowance is charged to expense when, in management’s opinion, the realization of all or a portion of the loans or recovery on properties owned is doubtful.

In evaluating the allowance, management considers the age of the various loans, the relationship of the allowances to outstanding mortgage loans, collateral values, insurance claims and economic conditions.

Management of the Corporation believes that the allowance is adequate. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

Cash Flows

Cash paid for interest during fiscal years ended June 30, 2000 and 1999, totaled $34,275,039 and $34,482,124, respectively.

Unamortized Bond Issuance Costs, Discounts and Premiums

Costs related to issuing bonds, as well as discounts or premiums on the sale of bonds, are deferred and amortized over the life of the bonds using a method which approximates the effective interest method. Prepayments of principal are not anticipated in amortizing bond issuance costs, bond discounts or premiums.

Reservation Fees

Reservation fees are those fees paid to the Corporation by banks within the state to reserve their respective allocation of bond proceeds for the purpose of originating mortgage loans under the program. These reservation fees, all of which are non-refundable, are recognized as income when received.

Income Taxes

As a tax-exempt, quasi-governmental organization created by legislative statute, the Corporation is exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been included in the combined financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Gains

Gains resulting from the substitution of collateral in defeasance trusts and the sale of the Corporation's right to residual assets in defeasance trusts are deferred and amortized as a component of interest expense over the lives of the defeased bonds using the bonds outstanding method. This caption also includes a liability for the premium received for a call option written on the 1989 Program GNMA certificates. When the option expires in 2015 or the Corporation enters into a closing transaction, the Corporation will realize a gain on the option to the extent of the premium received or a loss to the extent that the cost of the closing transaction exceeds the premium received. The premium totaled $355,949 at June 30, 2000 and 1999.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH EQUIVALENTS AND INVESTMENTS:

The Corporation is authorized by Mississippi statute, subject to any agreement with bondholders or note holders, to invest in the following:

- Direct obligations of or obligations guaranteed by the United States;
- Bonds, debentures, notes or other evidence of indebtedness issued by U.S. Government agencies;
- Direct and general obligations of the State;
- Repurchase agreements secured by collateral;
- Investment contracts or agreements with entities rated "A" or better by a nationally recognized rating agency; and,
- Certificates of deposit or time deposits of qualified depositories and money market funds.

Governmental accounting standards require that the carrying amounts of cash and investments as of the balance sheet date be categorized according to the level of credit risk associated with the Corporation's cash and cash equivalents and investments at that time. The level of credit risk is defined as follows:

Category 1 - Insured (including government securities) or registered with securities held by the Corporation or its agent in the Corporation's name.

Category 2 - Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Corporation's name.

Category 3 - Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the Corporation's name.

2. CASH EQUIVALENTS AND INVESTMENTS (Continued):

The following is a summary, by category, of cash and cash equivalents as of June 30, 2000 and 1999:

	2000	1999
Category 1	$ 325,598	$ 184,378
Category 3	34,884,098	100,701,075
Total	$35,209,696	$100,885,453

The following table is a summary of the Corporation's investments, by category, including the amortized cost, estimated fair value, and any gross unrealized gains or losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2000:				
Category 1:				
U.S. Government agency securities	$ 11,801,617	$ 60,851	$ -	$ 11,862,468
GNMA mortgage-backed securities	456,436,478	1,105,704	(10,834,742)	446,707,440
	468,238,095	1,166,555	(10,834,742)	458,569,908
Category 3:				
Commercial agreements	5,000,000	-	-	5,000,000
	$ 473,238,095	$ 1,166,555	$ (10,834,742)	$ 463,569,908
June 30, 1999:				
Category 1:				
U.S. Government agency securities	$ 7,537,401	$ 54,672	$ -	$ 7,592,073
GNMA mortgage-backed securities	408,449,805	4,737,427	(2,469,384)	410,717,848
	415,987,206	4,792,099	(2,469,384)	418,309,921
Category 3:				
Commercial agreements	5,000,000	-	-	5,000,000
	$ 420,987,206	$ 4,792,099	$ (2,469,384)	$ 423,309,921

The Corporation realized no gross gains or losses on the sale of investments during 2000 and 1999.

The fair value of securities pledged as collateral against repurchase agreements approximated the carrying value of those repurchase agreements at June 30, 2000 and 1999.

3. BONDS PAYABLE:

The following table shows the outstanding balance, stated interest rates and maturity dates for the bonds payable in each of the Corporation's mortgage purchase programs:

Description	June 30, 2000	June 30, 1999
1985 series accretion bonds – effective interest rate 10.130%, principal due through October 15, 2012	$ -	$ 945,000
1988 series bonds – 6.900% to 7.800% interest payable semiannually, principal due through October 15, 2018	4,625,000	6,325,000
1989 series bonds – 7.550% to 8.250% interest payable semiannually, principal due through October 15, 2018	18,910,000	23,995,000
1990A series bonds – 9.250% interest payable semiannually, principal due through March 1, 2012	6,235,000	7,895,000
1990B series accretion bonds – effective interest rate 8.750%, principal due through September 1, 2012	1,188,914	1,089,652
1990-I series accretion bonds – effective interest rate 8.000%, principal due through October 1, 2022	3,422,190	4,376,999
1992A series bonds – 5.550% to 7.500% interest payable semiannually, principal due through May 1, 2023	4,375,000	4,975,000
1992B series bonds – 5.000% to 6.500% interest payable semiannually, principal due through December 1, 2024	6,375,000	7,225,000
1992-II series accretion bonds – effective interest rate 7.375%, principal due through April 15, 2012	-	3,344,245
1993B series accretion bonds – effective interest rate 6.930% to 7.280%, principal due through December 1, 2012	2,101,223	4,708,602
1994A series bonds – 4.500% to 6.900% interest payable semiannually, principal due through June 1, 2024	5,660,000	6,695,000
1994B series bonds – 5.000% to 7.900% interest payable semiannually, principal due through March 1, 2025	8,645,000	9,460,000
1994C series bonds – 4.750% to 8.125% interest payable semiannually, principal due through December 1, 2024	4,380,000	5,600,000
1994D series bonds – 4.800% to 8.100% interest payable semiannually, principal due through December 1, 2024	4,850,000	5,855,000
1994E series bonds – 4.900% to 8.100% interest payable semiannually, principal due through December 1, 2025	4,650,000	6,205,000

3. BONDS PAYABLE (Continued):

Description	June 30, 2000	1999
1994F series bonds – 5.400% to 7.450% interest payable semiannually, principal due through June 1, 2026	$ 5,995,000	$ 7,995,000
1994-I series bonds – 8.680% to 9.150% interest payable semiannually, principal due through September 15, 2014	9,314,212	12,062,235
1995B series bonds – 6.550% to 6.625% interest payable semiannually, principal due through April 1, 2027	9,120,000	10,840,000
1995D series bonds – 6.520% interest payable semiannually, principal due through November 1, 2027	19,945,000	23,490,000
1995G series bonds – 6.100% interest payable semiannually, principal due through June 1, 2016	1,525,000	3,005,000
1995H series bonds – 6.250% interest payable semiannually, principal due through December 1, 2026	15,530,000	15,530,000
1995I series bonds – 5.900% interest payable semiannually, principal due through June 1, 2017	1,645,000	1,845,000
1995J series bonds – 5.400% to 6.125% interest payable semiannually, principal due through June 1, 2027	20,390,000	22,860,000
1996B series bonds – 5.375% interest payable semiannually, principal due through December 1, 2010	-	1,070,000
1996C series bonds – 5.550% to 7.600% interest payable semiannually, principal due through June 1, 2029	23,220,000	25,560,000
1996D series bonds – 7.400% interest payable semiannually, principal due through June 1, 2019	-	1,365,000
1996E series bonds – 4.400% to 5.500% interest payable semiannually, principal due through December 1, 2007	2,370,000	3,345,000
1996F series bonds – 6.000% to 7.550% interest payable semiannually, principal due through December 1, 2027	20,140,000	20,140,000
1996G series bonds – 6.850% interest payable semiannually, principal due through June 1, 2020	-	2,210,000
1996H series bonds – 4.000% to 5.550% interest payable semiannually, principal due through December 1, 2010	3,405,000	4,120,000
1996I series bonds – 5.200% to 7.375% interest payable semiannually, principal due through June 1, 2029	15,505,000	15,505,000

3. BONDS PAYABLE (Continued):

Description	June 30, 2000	June 30, 1999
1997A series bonds – 6.850% interest payable semiannually, principal due through December 1, 2020	$ 1,835,000	$ 4,125,000
1997B series bonds – 4.300% to 5.600% interest payable semiannually, principal due through June 1, 2011	1,320,000	1,415,000
1997C series bonds – 5.500% to 7.200% interest payable semiannually, principal due through June 1, 2028	16,270,000	16,270,000
1997D series bonds – 5.80% to 7.750% interest payable semiannually, principal due through July 1, 2012	23,396,509	26,205,128
1997G series bonds – 5.250% to 6.830% interest payable semiannually, principal due through November 1, 2029	25,895,927	28,896,246
1997H series bonds – 5.350% to 6.930% interest payable semiannually, principal due through December 1, 2029	21,816,168	22,858,765
1998A series bonds – 5.125% to 6.560% interest payable semiannually, principal due through June 1, 2030	35,161,581	37,425,429
1998B series bonds – 5.100% to 6.250% interest payable semiannually, principal due through June 1, 2030	27,950,000	28,840,000
1998C series bonds – 4.900% to 6.250% interest payable semiannually, principal due through December 1, 2030	25,899,622	26,610,000
1999A series bonds – 4.800% to 6.630% interest payable semiannually, principal due through June 1, 2031	40,535,000	41,240,000
1999B series bonds - 4.100% to 5.650% interest payable semiannually, principal due through June 1, 2027	11,795,000	-
1999B series accretion bonds – effective interest rate 5.800%, principal due through December 1, 2030	800,661	-
1999C series bonds – 5.450% to 7.260 interest payable semiannually, principal due through June 1, 2031	25,450,000	-
	481,647,007	503,522,301
Unamortized premiums and deferred refunding losses, net	2,480,383	2,888,652
Total bonds payable, net	$ 484,127,390	$506,410,953

3. BONDS PAYABLE (Continued):

The following table summarizes the contractual bond maturities, as of June 30, 2000, in each of the Corporation's mortgage purchase programs:

	Year ended June 30,						Discount on Appreciation Bonds	
	2001	2002	2003	2004	2005	Thereafter		Total
Program:								
1988	$ 160,000	$ 165,000	$ 160,000	$ 80,000	$ -	$ 4,060,000	$ -	$ 4,625,000
1989	-	-	-	-	2,350,000	16,560,000	-	18,910,000
1990A&B	-	-	-	-	-	9,595,000	(2,171,086)	7,423,914
1990-I	-	-	-	-	-	3,422,190	-	3,422,190
1992A	125,000	135,000	140,000	75,000	-	3,900,000	-	4,375,000
1992B	200,000	195,000	125,000	-	-	5,855,000	-	6,375,000
1993B	-	-	-	-	-	5,110,000	(3,008,777)	2,101,223
1994A	-	-	-	190,000	-	5,470,000	-	5,660,000
1994B	-	-	-	-	455,000	8,190,000	-	8,645,000
1994C	40,000	50,000	60,000	35,000	-	4,195,000	-	4,380,000
1994D	55,000	55,000	65,000	75,000	15,000	4,585,000	-	4,850,000
1994E	60,000	50,000	60,000	60,000	25,000	4,395,000	-	4,650,000
1994F	50,000	65,000	70,000	65,000	30,000	5,715,000	-	5,995,000
1994-I	-	-	-	-	-	9,314,212	-	9,314,212
1995A&B	-	-	-	-	-	9,120,000	-	9,120,000
1995C&D	-	-	-	-	-	19,945,000	-	19,945,000
1995F,G&H	-	-	-	-	-	17,055,000	-	17,055,000
1995I&J	-	-	-	-	-	22,035,000	-	22,035,000
1996A,B&C	-	-	-	-	-	23,220,000	-	23,220,000
1996D,E&F	260,000	260,000	295,000	320,000	330,000	21,045,000	-	22,510,000
1996G,H&I	225,000	240,000	265,000	285,000	310,000	17,585,000	-	18,910,000
1997A,B&C	95,000	100,000	105,000	115,000	120,000	18,890,000	-	19,425,000
1997D	-	-	-	-	-	23,396,509	-	23,396,509
1997G	-	-	-	-	-	25,895,927	-	25,895,927
1997H	-	-	-	-	-	21,816,168	-	21,816,168
1998A	-	-	-	-	-	35,161,581	-	35,161,581
1998B	-	-	-	-	-	27,950,000	-	27,950,000
1998C	-	-	-	-	-	25,899,622	-	25,899,622
1999A	-	-	-	-	-	40,535,000	-	40,535,000
1999B	90,000	185,000	195,000	200,000	210,000	15,475,000	(3,759,339)	12,595,661
1999C	-	-	-	-	-	25,450,000	-	25,450,000
Totals	$1,360,000	$1,500,000	$1,540,000	$1,500,000	$3,845,000	$480,841,209	$ (8,939,202)	$481,647,007

The Corporation has the option to redeem bonds after they have been outstanding for 10 years at initial prices ranging from 102% to 105% of par and subsequently at prices declining to par, except for the 1990B, 1990-I, 1993B, and 1994-I series bonds. The 1990B series bonds are redeemable after 10 years at 100% of their accreted value. The 1993B series bonds are redeemable after 7 years at an initial price of 103% and subsequently at prices declining to par. The 1990-I series bonds have no restrictions on early redemption since repayments of such bonds are based on principal collections from the underlying mortgage assets. The 1994-I series bonds are redeemable after 10 years at 100% provided that at the redemption date no more than 20% of the original principal amount is outstanding. Certain extraordinary redemptions, as governed by the bond resolutions, are permitted prior to the foregoing redemption dates.

The bonds are secured, as described in the applicable bond resolution, by a pledge of the revenues, monies, investments, mortgage loans and other assets of the applicable programs. Management believes that, for the years ended June 30, 2000 and 1999, the Corporation has complied with all significant bond covenants.

4. NOTES PAYABLE:

The Corporation has a $1,971,113 note payable to Trustmark National Bank for the purchase of a building. This note bears interest at 7.25% and is due November 2002.

In March 1999, the Corporation entered into an agreement to issue up to $50,000,000 in convertible program notes, secured by U.S. Treasury securities. The notes bear interest at a rate equal to 95% of the 30-day U.S. Treasury rate. The agreement was originally due to expire in March 2000; however, at the election of the Board of Directors, the agreement was extended until October 2000. At June 30, 2000, $13,500,000 is outstanding under this agreement. The

4. NOTES PAYABLE (Continued):

remainder, $17,825,000, is available for the purpose of refunding the maturing principal or redemption price, as the case may be, of a portion of certain outstanding bonds of the Corporation.

The remaining notes payable are attributable to amounts borrowed from banks to fund loans in the Down Payment Assistance Program. These loans, totaling $109,077, bear interest at 7.25%, and mature in April and May of 2003.

5. EXCESS EARNINGS:

For all of the mortgage purchase programs except the 1993B, 1993D, 1994-I, 1995A, and 1995C Programs, Federal tax regulations require that earnings on investments of bond proceeds in excess of the yield on the bonds (as defined in the regulations and subject to certain adjustments) be periodically computed and paid to either the United States or to the mortgagors. In certain instances, the bond resolutions require such excess earnings to be paid to the mortgagors. At June 30, 2000 and 1999, the Corporation determined that no significant liability exists for each excess earnings in any of the programs; however, this determination is subject to ongoing evaluation.

6. MISSISSIPPI AFFORDABLE HOUSING DEVELOPMENT FUND:

The Corporation is responsible for management of the Mississippi Affordable Housing Development Fund. The Fund was established by the State as a housing development revolving loan fund to provide resources for loans for the construction or repair of housing for persons or families of low to moderate income in the State using $1,997,952 in proceeds received from the Mississippi Department of Economic and Community Development (MDECD) in 1995 and $5,991,893 in proceeds obtained directly from the State in 1996. The Corporation is responsible for all aspects of the Fund, including developing lending criteria, establishing interest rates, and loan approval, servicing and reporting. Loan repayments are required to be returned to the Fund for use in granting new loans. Interest collected on the loans granted with the proceeds received from MDECD is required to be returned to the Fund for use in granting new loans. Similarly, interest collected on the loans granted with the proceeds received from the State is required to be returned to the State to be used in granting new loans. Costs incurred by the Corporation for administering the Fund are not reimbursed to the Corporation.

7. LOW INCOME HOUSING TAX CREDIT PROGRAM:

The Corporation has been designated as the allocating agency for the Low Income Housing Tax Credit Program (the Tax Credit Program). The U.S. Congress created the Tax Credit Program in 1986 to encourage investment in the construction and rehabilitation of housing units for low and moderate-income individuals and families. The Corporation has adopted a Low Income Housing Tax Credit Program Qualified Allocation Plan (the Plan), which provides for an application process, project evaluation selection criteria and compliance requirements. Receipts under the Tax Credit Program represent fees earned for administering the Tax Credit Program and are not restricted under the terms of the Plan or the Tax Credit Program.

8. DOWN PAYMENT ASSISTANCE PROGRAM:

The Corporation's down payment assistance program provides loans to qualified borrowers for down payments and allowable loan closing costs on purchases of the borrowers' primary residence. The qualification requirements are generally the same as those of the respective mortgage loan programs under which the primary mortgage loans are made. The down payment assistance loans generally have 10 year terms, have rates which approximate those of the primary mortgages, are secured by second mortgages on the residences, and generally do not exceed $3,500 per loan.

9. BOND DEFEASANCES:

The Corporation defeases various bond issues by creating separate irrevocable trust funds. New debt is issued and the proceeds used to purchase U.S. government securities that are placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Corporation's Combined Balance Sheets. The amount of defeased debt outstanding approximated $103,000,000 and $98,000,000 at June 30, 2000 and June 30, 1999, respectively.

10. DEFINED BENEFIT PENSION:

The Corporation contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

PERS members are required to contribute 7.25% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State Legislature. The Corporation's contribution requirement for the years ended June 30, 2000 and 1999 was approximately $206,600 and $172,000, which consisted of $118,500 and $98,700 from the Corporation and $88,100 and $73,300 from employees, respectively.

The Corporation's 34 participating employees are an insignificant portion of PERS total 286,000 participants.

11. DEFERRED COMPENSATION PLAN:

The State offers its employees a multiple-employer, deferred compensation plan created in accordance with Internal Revenue Code Section 457. The term "employee" means any person, whether appointed, elected, or under contract, providing services for the State, State agencies, counties, municipalities, or other political subdivisions, for which compensation is paid. The plan permits employees of the Corporation to defer a portion of their income until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employer (without being restricted to the provisions of benefits under the plan), subject only to the claims of the general creditors of those entities which employ deferred compensation participants. Participants' rights under the plan are the same as those of general creditors in an amount equal to the fair market value of the deferred account for each participant. The Corporation believes that it has no liabilities with respect to the State's plan.

12. CONDUIT ISSUES:

The Corporation has issued certain conduit multi-family housing revenue bonds, the proceeds of which were made available to various developers for rental housing. As of June 30, 2000, $26,050,000 of these bonds were outstanding. The bonds are payable solely from amounts received by the trustees from the revenue earned by the developers. Loan and corresponding debt service payments are guaranteed by irrevocable direct-pay letters of credit. The faith and credit of the Corporation is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Corporation's financial statements.

13. SUBSEQUENT EVENTS:

On September 1, 2000, the Corporation issued $55,000,000 of Single Family Mortgage Revenue bonds, titled Series 2000A. This series is comprised of $10,220,000 of serial bonds and $44,780,000 of term bonds, which bear interest at 4.35% to 5.35% and 5.45% to 6.95%, respectively.

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE AND INTERNAL CONTROLS

To the Board of Directors
of Mississippi Home Corporation:

We have audited the financial statements of Mississippi Home Corporation (the Corporation), as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated October 6, 2000. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* (1994 Revision, as amended), issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Corporation's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and the Corporation's management. However, this report is a matter of public record and its distribution in not limited.

Arthur Andersen LLP

Jackson, Mississippi,
October 6, 2000.