

In the opinion of Vinson & Elkins L.L.P. ("Bond Counsel"), assuming compliance with certain covenants and based on certain representations, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Series 2007A Bond during any period while it is held by a "substantial user" of the Development or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Interest on the Series 2007A Bonds, however, is an item of tax preference includable in alternative minimum taxable income for purposes of determining alternative minimum tax imposed on individuals and corporations. The Issuer has taken no action to cause any interest on the Series 2007B Bonds to be excludable from gross income for the purposes of federal income taxation and therefore it is assumed that interest on the Series 2007B Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for individual and corporations and other federal tax consequences of owning the Series 2007A Bonds.

\$15,000,000**\$1,860,000**

**Texas Department of Housing and Community Affairs
Multifamily Housing Revenue Bonds
(GNMA Collateralized Mortgage Loan —
Villas At Mesquite Creek)
Series 2007A**

**Texas Department of Housing and Community Affairs
Multifamily Housing Revenue Bonds
(GNMA Collateralized Mortgage Loan —
Villas At Mesquite Creek)
Taxable Series 2007B**

Dated: June 1, 2007, with interest accruing from the date of delivery**Due: January 20, 2047**

The Texas Department of Housing and Community Affairs (the "Issuer") is issuing its \$15,000,000 Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan – Villas at Mesquite Creek) Series 2007A (the "Series 2007A Bonds") and its \$1,860,000 Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan – Villas at Mesquite Creek) Taxable Series 2007B (the "Series 2007B Bonds" and, together with the Series 2007B Bonds, the "Bonds") pursuant to a Trust Indenture, dated as of June 1, 2007 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds are issuable only as fully registered bonds without coupons in the denomination of \$5,000 principal amount or any integral multiple thereof. Interest on the Bonds will be payable on January 20 and July 20 of each year, commencing January 20, 2008. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York. Principal of and interest on the Bonds is payable by the Trustee to Cede & Co. See "BOOK-ENTRY ONLY SYSTEM."

The Bonds are being issued to finance a mortgage loan (the "Mortgage Loan") to be originated by Keycorp Real Estate Capital Markets, Inc., an Ohio corporation (the "Lender") to One Mesquite Creek, L.P., a Texas limited partnership (the "Borrower"), for the acquisition, construction and equipping of a 252-unit multifamily housing development (the "Development") to be located in Dallas County, Texas to provide housing for persons of low and moderate income.

It is anticipated that the Bonds will be secured primarily by fully-modified, pass-through mortgage-backed securities (the "Ginnie Mae Certificates") guaranteed as to timely payment of principal and interest by Ginnie Mae ("Ginnie Mae") issued by the Lender, and held by the Trustee. The Ginnie Mae Certificates will be backed by the Mortgage Loan and issued by the Lender pursuant to a loan agreement (the "Loan Agreement") among the Issuer, the Borrower, the Lender and the Trustee. Prior to acquisition of the Ginnie Mae Certificates, the Bonds will be secured by certain of the Bond proceeds and other amounts invested by the Trustee as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

There is no provision in the Series 2007A Bonds or the Indenture for an acceleration of the Series 2007A Bond indebtedness or payment of additional interest in the event interest on the Series 2007A Bonds is declared taxable or becomes taxable, and none of the Issuer, the Borrower or the Underwriter will be liable for any such payment whatsoever.

The Bonds of each series are subject to redemption prior to maturity as described herein. Persons who purchase Bonds at a price in excess of their principal amount risk the loss of any premium paid in the event the Bonds are redeemed prior to maturity. See "THE BONDS — Redemption." Purchase of the Bonds involves certain other risks, and prospective purchasers should read "CERTAIN BONDHOLDERS' RISKS."

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE REVENUES, INCOME AND RECEIPTS OF THE ISSUER PLEDGED TO THE PAYMENT THEREOF AND ARE SECURED BY THE TRUST ESTATE. NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. THE STATE OF TEXAS IS NOT LIABLE ON THE BONDS AND THE BONDS ARE NOT A DEBT OF THE STATE OF TEXAS. THE ISSUER HAS NO TAXING POWER.

This cover page contains only a brief description of the Issuer, the Bonds and the security therefor. It is not intended to be a summary of material information with respect to the Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters will be passed upon for the Borrower by its counsel, Shackelford, Melton & McKinley, LLP, Dallas, Texas and for the Lender by Krooth & Altman LLP Washington, D.C.. Certain legal matters will be passed upon by Katten Muchin Rosenman LLP, Washington, DC, counsel to the Underwriter. It is expected that the Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about June 26, 2007.

Citi

MATURITY SCHEDULE

Series 2007A Bonds

\$15,000,000 5.00% Term Bond maturing January 20, 2047

Price: 100%

Series 2007B Bonds

\$1,860,000 5.81% Term Bond maturing January 20, 2019

Price: 100%

No broker, dealer, salesman or other person has been authorized by the Issuer, the Borrower, the Lender or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Borrower, the Lender or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Borrower, the Lender and the Issuer and other sources believed by the Underwriter to be reliable. This information is not guaranteed as to accuracy and is not to be construed as a representation of such by the Underwriter, the Borrower, the Lender or the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein since the date hereof. The Trustee has not undertaken to review this Official Statement and is not responsible for its contents.

The Issuer has not provided, approved or made any independent verification of any information in this Official Statement except with respect to the information under the captions “THE ISSUER” and “ABSENCE OF LITIGATION—The Issuer” and takes no responsibility for any other information contained in this Official Statement. Without limiting the foregoing, the Issuer makes no representation as to the feasibility or performance of the Development, the financial condition of the Borrower or to the suitability of the Bonds for any investor or compliance with any securities, tax or other laws or regulations.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (the “Commission”) or with any state securities agency. The Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE ISSUER NOR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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OFFICIAL STATEMENT

\$15,000,000

**Texas Department of Housing and Community Affairs
Multifamily Housing Revenue Bonds
(GNMA Collateralized Mortgage Loan — Villas At Mesquite Creek)
Series 2007A**

\$1,860,000

**Texas Department of Housing and Community Affairs
Multifamily Housing Revenue Bonds
(GNMA Collateralized Mortgage Loan — Villas At Mesquite Creek)
Taxable Series 2007B**

INTRODUCTORY STATEMENT

This Official Statement sets forth certain information concerning the Texas Department of Housing and Community Affairs (the "Issuer"), and the issuance and sale of its \$15,000,000 Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan — Villas at Mesquite Creek) Series 2007A (the "Series 2007A Bonds") and its \$1,860,000 Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan — Villas at Mesquite Creek) Taxable Series 2007B (the "Series 2007B Bonds", and together with the Series 2007A Bonds, the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture dated as of June 1, 2007 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee") to finance a mortgage loan to be originated by Keycorp Real Estate Capital Markets, Inc., an Ohio corporation, (the "Lender") to One Mesquite Creek, L.P., a Texas limited partnership (the "Borrower"), for the purpose of providing a portion of the funds with which to pay acquisition, development and construction costs relating to a 252-unit housing development located in the Dallas County, Texas, as more particularly described herein (the "Development").

The following is a summary of certain information contained in this Official Statement, to which reference should be made for a complete statement thereof. The Bonds are offered to potential investors only by means of the entire Official Statement, including the cover page, this introductory statement and the Appendices hereto. Capitalized terms used but not defined herein will have the meanings ascribed to them in the Indenture, the Loan Agreement or the Regulatory Agreement or as set forth under "CERTAIN DEFINITIONS" attached hereto as APPENDIX A.

Security for the Bonds

The principal of, premium, if any, and interest on the Bonds will be payable from the payments on the Ginnie Mae Certificates (as hereinafter defined) and from any other security pledged under the Indenture. Prior to the acquisition of the Ginnie Mae Certificates by the Trustee, the Bonds will be secured by certain of the Bond proceeds and other amounts held in the Acquisition Fund and invested by the Trustee pursuant to an investment agreement (the "Investment Agreement") with Calyon, acting through its New York Branch (the "Investment Agreement Provider"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "CERTAIN BONDHOLDERS' RISKS."

Ginnie Mae Certificates

Upon the purchase thereof by the Trustee, the Bonds will be secured primarily by fully modified mortgage-backed securities in the aggregate principal amount of \$16,860,000 (the "Ginnie Mae Certificates"), to be issued by the Lender, guaranteed as to principal and interest by

the Government National Mortgage Association (“Ginnie Mae”) and to be backed by the Mortgage Loan from the Lender to the Borrower as evidenced by a note of the Borrower (the “Mortgage Note”). See “THE GINNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM.” In the event the Initial Construction Loan Certificate is not delivered to the Trustee on or prior to August 15, 2007 (the “Initial Construction Loan Certificate Delivery Date”) (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Initial Construction Loan Certificate Delivery) in an amount equal to at least \$1,400,000, the Bonds will be redeemed in whole on the 15th day following the Initial Construction Loan Certificate Delivery Date, at a price of par, plus accrued interest. If the Project Loan Certificate is not delivered to the Trustee by December 31, 2009 (the “Delivery Date”) (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”), the Bonds will be redeemed as follows: (a) in part, on the 15th day following the Delivery Date, in an amount equal to the remainder, if any, of (i) the aggregate principal amount of the Bonds then Outstanding less (ii) the amount of the Construction Loan Certificates as delivered to the Trustee; and (b) in whole, on the 15th day following the maturity date of the Construction Loan Certificates. See “THE BONDS — Redemption — Extraordinary Mandatory Redemption” and “CERTAIN BONDHOLDERS’ RISKS — Early Redemption and Loss of Premium.”

The Bonds

The Bonds are available in book-entry only form. See “BOOK-ENTRY ONLY SYSTEM.” So long as Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), is the registered owner of the Bonds, references herein to the Bondholders or registered owners of the Bonds mean Cede & Co. and not the beneficial owners of the Bonds.

The Bonds are issued in fully registered form without coupons in Authorized Denominations. See “THE BONDS.”

The Bonds are subject to optional redemption prior to maturity as a whole or in part at any time on or after January 20, 2017, upon payment of the redemption prices set forth under “THE BONDS — Redemption — Optional Redemption.” The Bonds are also subject to extraordinary mandatory redemption and mandatory sinking fund redemption as described under “THE BONDS — Redemption — Extraordinary Mandatory Redemption” and “— Mandatory Sinking Fund Redemption.”

There is no provision in the Series 2007A Bonds or the Indenture for an acceleration or redemption of the 2007A Bonds or payment of additional interest in the event interest on the 2007A Bonds is declared or becomes taxable, and none of the Issuer, the Lender, the Borrower or the Underwriter will be liable for any such payment whatsoever.

Any person who purchases a Bond above par should consider the risk that such premium may be lost in the event that the Bond is redeemed prior to maturity. See “CERTAIN BONDHOLDERS’ RISKS.”

Tax Matters

In the opinion of Vinson & Elkins L.L.P. (“Bond Counsel”), assuming compliance with certain covenants and based on certain representations, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Series 2007A Bond during any period while it is held by a “substantial user” of the Development or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Interest on the Series 2007A Bonds, however, is an item of tax preference includable in alternative minimum taxable income for purposes of determining alternative minimum tax imposed on individuals and corporations. See “TAX MATTERS” herein for a discussion of Bond Counsel’s opinion, including a description of

alternative minimum tax consequences for individual and corporations and other federal tax consequences of owning the Series 2007A Bonds.

Certain Legal and Other Matters

The Issuer has appointed Wells Fargo Bank, National Association to serve as the Trustee under the Indenture. Certain legal matters relating to the authorization and validity of the Bonds will be passed upon by the Attorney General of the State of Texas and by Vinson & Elkins L.L.P., as Bond Counsel. Certain legal matters will be passed upon for the Borrower by its counsel, Shackelford, Melton & McKinley, LLP, Dallas, Texas, and for the Lender by Krooth & Altman LLP Washington, D.C.. Certain legal matters will be passed upon by Katten Muchin Rosenman LLP, Washington, DC, counsel to the Underwriter.

Authority; Issuance and Delivery of Bonds

The Bonds are being issued under authority contained under Chapter 2306, Texas Government Code, as amended (the "Act"), and pursuant to an authorizing resolution adopted by the Board (as hereinafter defined) of the Issuer on March 20, 2007.

The Bonds are offered when, as and if issued and received by the purchaser thereof, subject to the approving opinion of the Attorney General of the State of Texas (the "State") and Bond Counsel. It is expected that the Bonds will be available for delivery in book-entry only form through the facilities of DTC on or about June 26, 2007.

Continuing Disclosure

No financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Bonds and the Issuer will not provide any such information and will not contractually obligate itself to provide any such information in the future. The Borrower has undertaken to provide continuing disclosure to Bondholders as described below, and the Issuer will have no liability to the Bondholders or any other person with respect to such disclosures.

The Borrower has covenanted for the benefit of Bondholders to provide certain financial information and operating data relating to the Borrower by not later than June 30 of each year, commencing in 2008 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed not later than June 30 of each year, commencing in 2008, by the Trustee, as dissemination agent, on behalf of the Borrower with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (the "SEC") and with any public or private repository or entity designated by the State of Texas (collectively, the "Repositories"). The notices of material events will be filed by the dissemination agent on behalf of the Borrower with the Repositories. See "SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENT" attached as APPENDIX E.

Miscellaneous

The information contained herein is current as of the date of this Official Statement set forth on the cover page hereof. The information contained herein is subject to change after such date. The Issuer has not provided, approved or made any independent verification of any information in this Official Statement except with respect to the information under the captions "THE ISSUER" and "ABSENCE OF LITIGATION – The Issuer" and takes no responsibility for any other information contained in this Official Statement. Without limiting the foregoing, the Issuer makes no representation as to the feasibility or performance of the Development, the financial condition of the Borrower or to the suitability of the Bonds for any investor or compliance with any securities, tax or other laws or regulations.

Additional Information

Brief descriptions of the Issuer, the Bonds, the security for the Bonds, the Borrower, the Development, the Indenture, the Loan Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Investment Agreement, the Mortgage Note and the Mortgage are included in this Official Statement and the Appendices hereto. All references herein to the Indenture, the Loan Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Investment Agreement, the Mortgage Note and the Mortgage and other documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available for inspection at the offices of the Trustee.

THE ISSUER

General

The Issuer, a public and official governmental agency of the State and a body corporate and politic, was created pursuant to the Act, effective September 1, 1991. The Issuer is the successor agency to the Texas Housing Agency (the "Agency") and the Texas Department of Community Affairs, both of which were abolished by the Act and their functions and obligations transferred to the Issuer. One of the purposes of the Issuer is to provide assistance to individuals and families of low and very low income and families of moderate income and persons with special needs to obtain decent, safe and sanitary housing. Pursuant to the Act, the Issuer may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Issuer or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Issuer.

The Issuer is subject to the Texas Sunset Act (Chapter 325, Texas Government Code, as amended, hereinafter referred to as the "Sunset Act") and its continued existence is subject to a review process that resulted in passage of legislation in the 2003 Texas legislative session which continues the Issuer in existence until September 1, 2011, at which time it will again be subject to review. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished under the provisions thereof and provides that the Governor of the State (the "Governor") shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act (such as the Bonds) that the State will not limit or alter the rights vested in the Issuer to fulfill the terms of any agreements made with the holders thereof that would in any way impair the rights and remedies of such holders until such bonds, together with the interest thereon, interest on any unpaid installments of interest and all costs and expenses incurred in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Organization and Membership

Governing Board. The Issuer is governed by a governing board (the "Board") consisting of seven public members, appointed by the Governor, with the advice and consent of the State Senate. Board members hold office for six-year staggered terms. Each member serves until his or her successor is appointed and qualified. Each member is eligible for reappointment. Members serve without compensation, but are entitled to reimbursement for actual expenses incurred in performing their duties of office. The Act requires the Governor to make appointments so that the places on the Board are occupied by persons who have a demonstrated interest in issues related to housing and support services and who broadly reflect the geographic, economic, cultural, and social diversity of the State, including ethnic minorities, persons with disabilities, and women. The

Governor designates a member of the Board to serve as the presiding officer (the "Chair") of the Board at the pleasure of the Governor. The Chair presides at all meetings and performs such other duties as may be prescribed from time to time by the Board and by the Act. In addition, the members of the Board elect one of its members as assistant presiding officer (the "Vice Chair") to perform the duties of the Chair when the Chair is not present or is incapable of performing such duties. The Board also elects a Secretary and a Treasurer (which offices may be held by one individual and neither office holder is required to be a Board member) to perform the duties prescribed by the Board.

The current members of the Board, their occupations and their terms of office are as follows:

ELIZABETH ANDERSON, Chair and Board Member. Marketing/Information Technology Consultant, Dallas, Texas. Her term expires January 31, 2007.

C. KENT CONINE, Vice Chair and Board Member. President, Conine Residential Group, Frisco, Texas. His term expires January 31, 2009.

SHADRICK BOGANY, Board Member. ERA Bogany Properties of Houston, Houston, Texas. His term expired January 31, 2005.

NORBERTO SALINAS, Board Member. Mayor, City of Mission, Mission, Texas and President, S & F Developers and Builders. His term expired January 31, 2005.

DIONICIO VIDAL "SONNY" FLORES, Board Member. President and Owner, PEC Corporation, an engineering and construction management company. His term expires January 31, 2009.

GLORIA L. RAY, Board Member. Chief of Resources Management Division, Kelly Air Force Base, Retired. Her term expires January 31, 2011.

All of the above Board members have been appointed by the Governor and confirmed by the State Senate, except for Sonny Flores and Gloria L. Ray. Texas law requires that confirmations of any such appointment be considered at the next legislative session, whether regular or special. One position currently remains vacant. Any Board member whose term has expired continues to serve until his or her successor has been appointed.

Administrative Personnel. The Act provides that the Issuer is to be administered by an Executive Director to be employed by the Board with the approval of the Governor. The Executive Director serves at the pleasure of the Board, but may also be removed by a newly elected Governor who did not approve the Executive Director's appointment by action taken within 90 days after such Governor takes office. The Executive Director is responsible for administering the Issuer and its personnel. The Executive Director may employ other employees necessary for the discharge of the duties of the Issuer, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Issuer's bonds.

Currently, the Issuer has 277 employees. The following is a biographical summary of certain of the Issuer's senior staff members who have responsibility with respect to multi-family housing matters:

MICHAEL G. GERBER, Executive Director. On April 13, 2006, the Issuer selected Michael G. Gerber as Executive Director. Mr. Gerber began service at the Issuer on May 17, 2006, with the statutorily required approval of the Governor. Before joining the Issuer, Mr. Gerber served as an Advisor to Texas Governor Rick Perry in the Governor's Office of Budget, Planning,

and Policy since October 2004. From January 2003-October 2004, Mr. Gerber served in the Bush Administration at the U.S. Department of Housing and Urban Development, first as a Senior Advisor to the Assistant Secretary for Public and Indian Housing, and later as a Senior Advisor to the Assistant Secretary for Policy Development and Research. Mr. Gerber served as a Legislative Assistant to U.S. Senator Kay Bailey Hutchison from 1997-2001, and as a Special Assistant for State Projects to U.S. Senator Phil Gramm from 1990-1997. Mr. Gerber received his undergraduate degree from George Washington University and a Masters of Business Administration from Marymount University.

BROOKE BOSTON, Deputy Executive Director. Ms. Boston joined the Issuer in June of 2000 as a Low Income Housing Tax Credit Planner in the Multifamily Program Division and was subsequently named the Co-Manager of the low income housing tax credit program. She assumed her current position on June 1, 2006. Ms. Boston's responsibilities include oversight of the Issuer's program divisions including Single Family Finance Product, Multifamily Finance Production, the Office of Colonia Initiatives and the Community Affairs Division. Prior to this position, Ms. Boston had been the Director of Multifamily Finance Production since January 2003 and her duties included managing mortgage revenue bonds, low income housing tax credits, preservation funds, the Housing Trust Fund and HOME funds. Prior to joining the Issuer, Ms Boston had been in the housing industry consulting on affordable housing development. Ms. Boston has a Master of Science in Planning from Florida State University, Tallahassee, Florida.

WILLIAM DALLY, Deputy Executive Director for Administration. Mr. Dally initially joined the Issuer on the Internal Audit staff in June 1994. On May 1, 1999, Mr. Dally was promoted to the position of Chief Financial Officer after serving as the Issuer's Controller since January 1996. Mr. Dally is presently responsible for the Issuer's management of fiscal affairs, including budgets and financial reporting. In his current role, Mr. Dally also oversees the compliance monitoring functions of the Issuer. Mr. Dally earned a Bachelor of Business Administration degree in Accounting from the University of Texas at Austin, and is a Certified Public Accountant. Prior to his employment with the Issuer, Mr. Dally was a Senior Auditor with the firm of KPMG Peat Marwick and worked primarily with governmental entities.

ROBBYE MEYER, Director of Multifamily Finance Production. Ms. Meyer joined the Issuer in May 2001 as the Multifamily Bond Specialist in the Multifamily Bond Program Division. She was reclassified as the Multifamily Bond Administrator when the Issuer was reorganized in 2003. Ms. Meyer was named Manager of Multifamily Finance Production in April of 2005 and was subsequently named Director of Multifamily Production in September, 2006. As Director, she is responsible for the application, review, allocation, award, and closing on all multifamily funding sources and the Issuer including multifamily revenue bonds, low income housing tax credits, preservation funds, the Housing Trust Fund, and HOME funds.

KELLY CRAWFORD, Director of Portfolio Management and Compliance. Kelly Crawford has over seven years of state government service with project management, monitoring, and auditing experience in welfare reform programs, performance measurement, data accuracy, and program efficiency including three and one-half years with the Issuer as an internal auditor. She has worked closely with Issuer management to consult in the development and implementation of an Enterprise Risk Management program. Ms. Crawford holds a Bachelor of Science degree from Texas A&M University, is a Certified Internal Auditor, and holds a Certification in Control Self-Assessment.

KEVIN HAMBY, General Counsel and Secretary to the Board. Kevin Hamby was named General Counsel of the Issuer and became Secretary to the Board on September 1, 2005. In his role of Board Secretary, Mr. Hamby coordinates the recording of transcripts and minutes of Board actions as required by the Act. As General Counsel, Mr. Hamby is responsible for coordination of

all internal and external legal counsel for the issuer. Previously, he was with the Office of the Attorney General of Texas in the Administrative Law Division. After graduating from Catholic University of America, Columbus School of Law, Mr. Hamby joined the Dallas office of Fulbright & Jaworski, L.L.P. where he was involved in the Public Finance and Commercial Litigation Sections. After leaving the law firm, Mr. Hamby served as general counsel to several organizations while in private practice. Mr. Hamby received his undergraduate degree in government from the University of Texas.

The offices of the Issuer are located at 221 East 11th Street, Austin, Texas 78701-2410, and the telephone number for the Housing Finance Division of the Issuer is 512/475-3800.

THE BONDS, TOGETHER WITH INTEREST THEREON, ARE SPECIAL AND LIMITED OBLIGATIONS SOLELY OF THE ISSUER PAYABLE FROM THE REVENUES, RECEIPTS AND SECURITY PLEDGED THEREFOR UNDER THE INDENTURE. NONE OF THE UNITED STATES OF AMERICA, THE STATE, THE ISSUER, OR ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC OF THE STATE OR ANY AGENCY OF THE UNITED STATES OF AMERICA OR ANY ISSUER THEREOF, WILL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER OF THE ISSUER, AND NONE OF THE BONDS OR ANY OF THE ISSUER=S AGREEMENTS OR OBLIGATIONS WILL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF THE UNITED STATES OF AMERICA, THE STATE, THE ISSUER, OR ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC OF THE STATE, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE BONDS ARE NOT AN OBLIGATION, DEBT OR LIABILITY OF THE STATE, AND DO NOT CREATE OR CONSTITUTE A PLEDGE, GIVING OR LENDING OF THE FAITH, CREDIT, OR TAXING POWER OF THE STATE.

Other Indebtedness of the Issuer

Single Family Mortgage Revenue Bonds. Since 1979, the year of creation of the Agency, through December 31, 2006, there have been issued by the Agency or the Issuer, 27 series of Residential Mortgage Revenue Bonds, two series of GNMA Collateralized Home Mortgage Revenue Bonds, 49 series of Single Family Mortgage Revenue Bonds, four series of Junior Lien Single Family Mortgage Revenue Bonds, 11 series of Collateralized Home Mortgage Revenue Bonds, and 10 series of Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds). As of December 31, 2006, the aggregate outstanding principal amount of bonded indebtedness of the Issuer for single family purposes was \$1,313,275,000.

Multifamily Housing Revenue Bonds. The Issuer and the Agency, through December 31, 2006, have issued 198 series of multifamily housing revenue bonds which have been issued pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of December 31, 2006, 137 series were outstanding with an aggregate outstanding principal amount of \$1,158,114,715 of multifamily housing revenue bonds.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The proceeds of the Bonds will be deposited into the Acquisition Fund. \$70,000 paid by the Underwriter (but not from the proceeds of the Bonds), will be deposited into the Capitalized Interest Account to pay interest on the Bonds, to pay accrued interest on the purchased Ginnie Mae Certificates or, with the approval of the Rating Agency, to pay any costs incurred with obtaining an extension of the Delivery Date. Moneys from the Borrower in the amount of approximately

\$576,163 will be deposited into the Costs of Issuance Fund. The Borrower has agreed to promptly reimburse the Underwriter for the above-mentioned deposit to the Capitalized Interest Account.

THE BONDS

The Bonds are available in book-entry only form. See “BOOK-ENTRY ONLY SYSTEM” below. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, references herein to the Bondholders or holders or registered owners or owners of the Bonds mean Cede & Co. and not the beneficial owners of the Bonds.

General

The Bonds are issuable in Authorized Denominations. The Bonds will be dated June 1, 2007, and will mature on the dates and in the amounts and bear interest from the Closing Date at the rates set forth on the inside of the cover page hereof. Interest will be payable semiannually on January 20 and July 20 of each year, commencing January 20, 2008 (each a “Payment Date”) and in accordance with the provisions of the Indenture, whether at maturity, prior redemption, upon acceleration or otherwise, as provided therein. Interest will be calculated and be due on a basis of a 360-day year consisting of twelve 30-day months. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee to Cede & Co.

Redemption

Optional Redemption. (a) In the event the Borrower exercises any option to prepay the Mortgage Note and amounts are paid under the Ginnie Mae Certificates representing such prepayments, the Bonds are subject to redemption prior to maturity as a whole or in part at any time on or after January 20, 2017, on the first date after such prepayment for which timely notice of redemption can be given under the Indenture as described in “Notice of Redemption” below, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

(b) The Borrower may elect to optionally redeem the Bonds prior to maturity as a whole at any time on or after January 20, 2017, on the first date for which timely notice of redemption can be given under the Indenture as described in “Notice of Redemption” below, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date:

The Borrower will provide written notice to the Trustee of its election to optionally redeem the Bonds pursuant to the provision of the Indenture described in this paragraph (b), together with a Favorable Opinion of Bond Counsel (at the Borrower’s sole expense) with respect to the Series 2007A Bonds subject to redemption. The principal of and the interest on any Bond redeemed pursuant to the provision of the Indenture described in this paragraph (b) will be paid only with Available Money. Bonds subject to optional redemption pursuant to the provision of the Indenture described in this paragraph (b) must be purchased in lieu of redemption pursuant to the provisions of the Indenture described under “THE BONDS – Redemption – Purchase in Lieu of Redemption.”

Extraordinary Mandatory Redemption. The Bonds are required to be redeemed: (a) (i) in part, on the 15th day following the Delivery Date (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”), in an amount equal to the remainder, if any, of (A) the aggregate principal amount of the Bonds then Outstanding less (B) the amount of the Construction Loan Certificates as delivered to the Trustee or its nominee; and (ii) in whole, on the 15th day following the maturity date of the Construction Loan Certificates (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”), in each case if the Project Loan Certificate is not delivered to the Trustee or its nominee on or before the Delivery Date (as the same may be

extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”); or (b) in part, on the 15th day following the Delivery Date (as the same may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”), in an amount equal to the remainder, if any, of (i) the aggregate principal amount of the Bonds then Outstanding less (ii) the amount of the Project Loan Certificate delivered to the Trustee or its nominee; or (c) in whole or in part in an amount equal to the corresponding payments on a Ginnie Mae Certificate, on the 15th day following receipt of such payments, if the Trustee receives payments on the Ginnie Mae Certificate exceeding regularly scheduled payments of principal and interest thereon on account of (i) payment of proceeds of the FHA Insurance; (ii) proceeds of any Condemnation Award or of any insurance recovery being applied to the prepayment of the Mortgage Note; (iii) a trustee in a bankruptcy proceeding with respect to the Borrower causing the Borrower to prepay the Mortgage Note without notice or premium; or (iv) any other reason (other than an optional prepayment of the Mortgage Note), including prepayment made by the Borrower following a determination by HUD that such prepayment will avoid a mortgage insurance claim and is therefore in the best interest of the federal government; or (d) in whole, on the 15th day following the Initial Construction Loan Certificate Delivery Date (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Initial Construction Loan Certificate Delivery Date”) if the Initial Construction Loan Certificate is not delivered to the Trustee or its nominee on or before the Initial Construction Loan Certificate Delivery Date in an amount equal to at least \$1,400,000. In the event of a redemption pursuant to the preceding paragraph, the Bonds will be redeemed at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds are required to be redeemed in part at a redemption price equal to 100% of the principal amount thereof to be redeemed plus interest accrued to the Sinking Fund Redemption Date in the amounts and on the Sinking Fund Redemption Dates set forth below:

[Remainder of page intentionally left blank.]

Series 2007A Bonds Maturing January 20, 2047

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
01/20/2019	\$ 10,000	07/20/2033	\$250,000
07/20/2019	125,000	01/20/2034	255,000
01/20/2020	130,000	07/20/2034	265,000
07/20/2020	130,000	01/20/2035	270,000
01/20/2021	135,000	07/20/2035	275,000
07/20/2021	140,000	01/20/2036	285,000
01/20/2022	140,000	07/20/2036	290,000
07/20/2022	145,000	01/20/2037	300,000
01/20/2023	150,000	07/20/2037	305,000
07/20/2023	155,000	01/20/2038	315,000
01/20/2024	155,000	07/20/2038	320,000
07/20/2024	160,000	01/20/2039	330,000
01/20/2025	165,000	07/20/2039	335,000
07/20/2025	170,000	01/20/2040	345,000
01/20/2026	175,000	07/20/2040	355,000
07/20/2026	180,000	01/20/2041	365,000
01/20/2027	180,000	07/20/2041	370,000
07/20/2027	185,000	01/20/2042	380,000
01/20/2028	190,000	07/20/2042	390,000
07/20/2028	195,000	01/20/2043	400,000
01/20/2029	200,000	07/20/2043	410,000
07/20/2029	205,000	01/20/2044	420,000
01/20/2030	210,000	07/20/2044	430,000
07/20/2030	215,000	01/20/2045	445,000
01/20/2031	220,000	07/20/2045	455,000
07/20/2031	225,000	01/20/2046	465,000
01/20/2032	235,000	07/20/2046	475,000
07/20/2032	240,000	01/20/2047*	490,000
01/20/2033	245,000		

*Maturity

[Remainder of page intentionally left blank.]

Series 2007B Bonds Maturing January 20, 2019

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
01/20/2010	\$135,000	01/20/2015	95,000
07/20/2010	75,000	07/20/2015	100,000
01/20/2011	75,000	01/20/2016	105,000
07/20/2011	80,000	07/20/2016	105,000
01/20/2012	80,000	01/20/2017	110,000
07/20/2012	85,000	07/20/2017	110,000
01/20/2013	85,000	01/20/2018	115,000
07/20/2013	90,000	07/20/2018	120,000
01/20/2014	90,000	01/20/2019*	110,000
07/20/2014	95,000		

*Maturity

After any optional or extraordinary mandatory redemption of the Bonds (except for mandatory sinking fund redemptions), the Sinking Fund Redemption Requirements of the Bonds will be reduced by the Trustee so that the resulting decrease in the Sinking Fund Redemption Requirements is proportional, as nearly as practical, to the decrease in payments under the Ginnie Mae Certificates, except that in the event of a partial redemption of Bonds pursuant to extraordinary mandatory redemption as described under clause (b) in “THE BONDS — Extraordinary Mandatory Redemption” above, the portion, if any, of such redemption that is due to amortization of the Mortgage Loan will be credited against the next succeeding Sinking Fund Redemption Requirement(s) and applied on the next Sinking Fund Redemption Date and will not be considered when calculating any decrease in the Sinking Fund Redemption Requirements.

If the Project Loan Certificate is not delivered by the Delivery Date, no Bonds will be redeemed pursuant to mandatory sinking fund redemption.

Selection of Bonds for Redemption. In the event of a partial redemption of Bonds, the Bonds or portions thereof to be redeemed will be selected by the Trustee randomly such that the resulting decrease in the debt service on the Bonds of each Series and maturity is proportional to the decrease in payments under the Ginnie Mae Certificate. Each portion of \$5,000 principal amount of the Bonds will be counted as one Bond for such purpose.

Notice of Redemption. The Trustee, or the Bond Registrar on behalf of the Trustee, will give notice of redemption not less than 15 nor more than 30 days prior to the redemption date, except that with respect to an extraordinary mandatory redemption described under “Extraordinary Mandatory Redemption” above, the Trustee (or Bond Registrar) will give such notice on the first Business Day following the Delivery Date or the Construction Loan Certificate maturity date, as appropriate, on the date the Trustee accepts delivery of the Project Loan Certificate, upon receipt of any prepayment of the Ginnie Mae Certificates or on the first Business Day following the Initial Construction Loan Certificate Delivery Date, as the case may be. Notice will be given by first-class mail, postage prepaid, to each Owner of Bonds to be redeemed at the address of such Owner as it appears on the Bond Register, and also to the Rating Agency, if any, and to such other Persons as the Issuer shall specify to the Trustee. The Trustee will not send notice of any optional redemption described under paragraph (a) under “Optional Redemption” above unless the Trustee will have received payment equal to the prepayment premium on the Mortgage Note, if any, plus the amount of principal with respect to the applicable Ginnie Mae Certificate(s). The Trustee will not send notice of any optional redemption described under paragraph (b) under “Optional Redemption” above unless the Trustee will have received a Favorable Opinion of Bond Counsel

(with respect to the Series 2007A Bonds subject to redemption) and money constituting Available Money in an amount equal to the redemption price of the Bonds to be redeemed. The failure of the Trustee to mail notice of redemption to Persons other than the Owners of Bonds to be redeemed will not affect the sufficiency of the proceedings for redemption.

All official notices of redemption will be dated, will be given in accordance with the Letter of Representations if the Bonds are registered in the name of DTC or its nominee, and will state: (a) the redemption date; (b) the redemption price; (c) if less than all Outstanding Bonds are to be redeemed, the identification by Series designation, letters, numbers or other distinguishing marks (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed; (d) that on the redemption date the redemption price of each such Bond will become due and payable to the extent of funds on deposit with the Trustee for that purpose, and that interest on the principal amount of each such Bond to be redeemed will cease to accrue on such date; (e) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment will be the Bond Registrar office of the Trustee; and (f) such additional information as the Trustee or the Issuer deems appropriate.

In addition to the foregoing notice, further notice will be given by the Trustee as set out below, but no defect in such further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given under the Indenture will contain the information required above for an official notice of redemption and in addition (a) the complete official title, including Series designation, Closing Date, interest rate and maturity date of each Bond being redeemed; (b) the certificate and CUSIP number of each such Bond, and, in the case of a partial redemption, the amount of the principal represented by each such certificate that is being redeemed; (c) the date of mailing of official notice of redemption; (d) the place where such Bonds are to be surrendered for payment of the redemption price, which place shall be the Bond Registrar office of the Trustee; and (e) any other descriptive information needed to identify accurately the Bonds being redeemed. Further notices of redemption will be sent by first-class mail or overnight delivery service to any Owner owning, on the date such notice is sent, Bonds in the aggregate principal amount of \$1,000,000 or more at the address of such Owner as it appears on the Bond Register.

If the Bonds are not then being held under a book-entry system, each further notice of redemption (other than a redemption pursuant to an extraordinary mandatory redemption under the caption "Extraordinary Mandatory Redemption" above) will be sent at least 30 days before the redemption date by first-class mail or overnight delivery service to the Securities Depositories and to one or more Information Services.

A second notice of redemption will be sent by the same means as the first such notice not later than 60 days after the redemption date to any Owner who has not presented for payment the Bond or Bonds called for redemption within 30 days after such date.

In the event the Bonds are called for redemption under circumstances resulting in discharge of the Indenture as described in APPENDIX B: "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Defeasance of Bonds" more than 90 days before the redemption date, additional official and further notice of redemption satisfying the requirements of the Indenture will be given not less than 30 nor more than 60 days prior to such date.

Failure to give any official or further notice or any defect therein will not affect the validity of the proceedings for redemption of any Bond with respect to which no such failure or defect has occurred or exists.

Purchase in Lieu of Redemption. Notwithstanding anything to the contrary provided in the Indenture, if the Bonds are subject to optional redemption pursuant to the provisions of the Indenture described under paragraph (b) under "Optional Redemption" above and the Trustee will have received a Favorable Opinion of Bond Counsel (with respect to the Series 2007A Bonds

subject to redemption), the Bonds will be purchased in lieu of redemption. The date otherwise scheduled for redemption will be the purchase date for all purposes of the Indenture and the Bonds will not be redeemed but will be purchased at an amount equal to the redemption price of the Bonds on such purchase date in the name of the Borrower (or as the Borrower will otherwise direct) and the Trustee will deliver such Bonds to the purchaser thereof.

BOOK-ENTRY ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Issuer and the Underwriter assume no responsibility for the accuracy of such information.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and Underwriter believe to be reliable, but the Issuer and Underwriter take no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (a) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (b) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds will be secured by the Trust Estate, which consists of (a) all right, title and interest of the Issuer in the Loan Agreement (except for the Unassigned Issuer Rights); (b) all right, title and interest of the Issuer in the Ginnie Mae Certificates, including all payments with respect thereto and any interest, profits and other income derived from the investment thereof; (c) the Funds, including moneys and investments therein, held by the Trustee pursuant to the terms of the Indenture, excluding funds held in the Expense Fund and the Rebate Fund and excluding rebatable arbitrage whether or not deposited in the Rebate Fund; (d) all other property of any kind mortgaged, pledged or hypothecated at any time as and for additional security under the Indenture by the Issuer or by anyone on its behalf or with its written consent in favor of the Trustee, which is authorized to receive all such property at any time and to hold and apply the same subject to the terms of the Indenture; and (e) to the extent not covered above, all proceeds of the foregoing. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Security for the Bonds."

Moneys held in the Acquisition Fund and the Bond Fund will be invested by the Trustee in the Investment Agreement. The Investment Agreement will represent the obligation of the Investment Agreement Provider to provide repayment to the Trustee of moneys invested in the Investment Agreement pursuant to the Indenture at the rate of 5.044% per annum to January 15, 2010 in the case of the Acquisition Fund and 4.781% per annum to January 20, 2047 in the case of the Bond Fund. See "CERTAIN BONDHOLDERS' RISKS — Investment Agreement." Funds will be disbursed from the Acquisition Fund by the Trustee to purchase Ginnie Mae Certificates

from the Lender, to pay debt service on the Bonds and, under certain circumstances, to pay the mandatory redemption price of the Bonds. See APPENDIX B — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund.”

THE GINNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM

The summary and explanation of the Ginnie Mae Mortgage-Backed Securities Program and the other documents referred to herein do not purport to be complete, and reference is made to the Ginnie Mae I Mortgage-Backed Securities Guide (Ginnie Mae Handbook 5500.1 REV-1, as amended) (the “Ginnie Mae I Guide”) and to said documents for full and complete statements of their provisions.

Ginnie Mae is a non-stock corporate instrumentality of the United States within the Department of Housing and Urban Development (“HUD”) with its principal office in Washington, D.C.

The Ginnie Mae Certificates will be “fully modified pass-through” mortgage-backed securities issued and serviced by the Lender. The total face amount of the Project Loan Certificate will be in approximately the same principal balance as the Mortgage Note, subject to a rounding convention. The Lender will be required to pass through to the Trustee or its nominee, as the holder of the Ginnie Mae Certificates, by the 15th day of each month the monthly scheduled installments of principal and interest (interest only on the Construction Loan Certificates) on the Mortgage Note (less the Ginnie Mae guarantee fee and the Lender’s servicing fee), whether or not the Lender receives such payment from the Borrower, plus any unscheduled prepayments of principal of the Mortgage Note received by the Lender. Ginnie Mae guarantees the timely payment of the principal of and interest on the Ginnie Mae Certificates.

Two types of Ginnie Mae Certificates are intended to be issued by the Lender in connection with the Mortgage Loan to the Borrower: (i) Construction Loan Certificates which are to be issued with respect to each construction loan advance under the Mortgage Loan and (ii) the Project Loan Certificate which is to be issued with respect to the permanent Mortgage Loan with payment provisions which correspond to the monthly scheduled installments of principal and interest on the Mortgage Note. Construction Loan Certificates are expected to be dated no later than the first day of the month following the month in which a construction advance is made under the Mortgage Loan and to provide that accrued interest for 30 days is payable by the Lender to the Trustee or its nominee as holder of the Construction Loan Certificates commencing 45 days after the issue date, and continuing on the 15th day of each successive month thereafter until maturity of the Construction Loan Certificates.

Ginnie Mae Guaranty

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act, as amended (the “National Housing Act”), to guarantee the timely payment of the principal of, and interest on, securities which are based on and backed by mortgage pools consisting of a single mortgage insured by the Federal Housing Administration (“FHA”) pursuant to Section 221(d)(4) of the National Housing Act. Section 306(g) of the National Housing Act further provides that “[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion, dated March 12, 1969, of the then Assistant Attorney General of the United States, states that such guaranties under Section 306(g) of mortgage-backed securities of the type being delivered to the Trustee on behalf of the Issuer are authorized to be made by Ginnie Mae and “would constitute general obligations of the United States backed by its full faith and credit.”

Pursuant to such authority, Ginnie Mae, upon delivery of a Ginnie Mae Certificate to the Lender in accordance with the related Ginnie Mae Guaranty Agreement (as hereinafter defined) will have guaranteed the timely payment of the principal of and interest on such Ginnie Mae Certificate.

Ginnie Mae Borrowing Authority

In order to meet its obligations under such guaranty, Ginnie Mae, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury Department (the "Treasury") in an amount outstanding at any one time sufficient to enable Ginnie Mae, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the Ginnie Mae Certificates. The Treasury is authorized to purchase any obligations so issued by Ginnie Mae and has indicated in a letter dated February 13, 1970, from the then Secretary of the Treasury to the then Secretary of HUD that the Treasury will make loans to Ginnie Mae, if needed, to implement the aforementioned guaranty.

Ginnie Mae warrants to the holder of the Ginnie Mae Certificates in the related Ginnie Mae Guaranty Agreement, that, in the event it is called upon at any time to make good its guaranty of the payment of principal of and interest on the Ginnie Mae Certificates, it will, if necessary, in accordance with Section 306(d), apply to the Treasury for a loan or loans in amounts sufficient to make payments of principal and interest on the Ginnie Mae Certificates.

Servicing of Mortgage Loans

The Lender is responsible for servicing and otherwise administering the Mortgage Loan in accordance with generally accepted practices of the mortgage banking industry and the Ginnie Mae I Guide.

The monthly remuneration of the Lender, for its servicing and administrative functions, and the guaranty fee charged by Ginnie Mae, are based on the unpaid principal amount of the Ginnie Mae Certificates outstanding. The total of the servicing and guaranty fees with respect to the Ginnie Mae Certificates is .25% per annum (.50% per annum prior to the earlier of final endorsement of the Mortgage Note by FHA or December 31, 2008), payable monthly, calculated on the principal balance of the Ginnie Mae Certificates outstanding on the last day of the month preceding such date of calculation. Of such fee, part is paid to Ginnie Mae as a guaranty fee, and the remainder is retained by the Lender as a servicing fee. The Ginnie Mae Certificates carry an interest rate that is .25% per annum less than the interest rate on the Mortgage Note (.50% per annum less than the interest rate on the Mortgage Note prior to the earlier of final endorsement of the Mortgage Note by FHA or December 31, 2008) because the servicing and guaranty fee is deducted from payments on the Mortgage Note.

It is expected that interest and principal payments on the Mortgage Note will be the source of moneys for payments on the Ginnie Mae Certificates. If such payments are less than what is due, the Lender may advance its own funds to ensure timely payment of scheduled installments of principal and interest due on the Ginnie Mae Certificates. Ginnie Mae guarantees such timely payment in the event of the failure of the Lender to pass through such scheduled principal and interest payments when due.

The Lender is required to advise Ginnie Mae in advance of any impending default on scheduled payments on the Ginnie Mae Certificates so that Ginnie Mae as guarantor will be able to continue such payments as scheduled on the 15th day of each month. If, however, such payments are not received as scheduled, the Trustee, on behalf of the Issuer, has recourse directly to Ginnie Mae.

The guaranty agreements to be entered into by Ginnie Mae and the Lender in connection with the issuance of the Construction Loan Certificates and the Project Loan Certificate (collectively, the "Ginnie Mae Guaranty Agreement") will provide that, in the event of a default by the Lender, including (a) a request to Ginnie Mae to make a payment of principal or interest on the Ginnie Mae Certificates when the Borrower is not in default under the Mortgage Note, (b) insolvency of the Lender, or (c) default by the Lender under any other guaranty agreement with Ginnie Mae, Ginnie Mae will have the right, by letter to the Lender, to effect and complete the

extinguishment of the Lender's interest in the Mortgage Note, and the Mortgage Note will thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the holder of the Ginnie Mae Certificates. In such event, the Ginnie Mae Guaranty Agreement will provide that on and after the time Ginnie Mae directs such a letter of extinguishment to the Lender, Ginnie Mae will be the successor in all respects to the Lender in its capacity under the Ginnie Mae Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and will be subject to all responsibilities, duties, and liabilities (except the Lender's indemnification of Ginnie Mae), theretofore placed on the Lender by the terms and provisions of the Ginnie Mae Guaranty Agreement, provided that at any time, Ginnie Mae may enter into an agreement with any other eligible issuer of Ginnie Mae securities under which the latter undertakes and agrees to assume any part or all of such responsibilities, duties or liabilities theretofore placed on the Lender, and provided that, no such agreement will detract from or diminish the responsibilities, duties or liabilities of Ginnie Mae in its capacity as guarantor of the Ginnie Mae Certificates, or otherwise adversely affect the rights of the holders thereof.

Payment of Principal and Interest on the Ginnie Mae Certificates

Payment of interest on each Ginnie Mae Certificate is required to be made in monthly installments on or before the 15th day of each month commencing the month next following the date of issue of such Ginnie Mae Certificate. Upon the issuance of the Project Loan Certificate and commencement of the payment of principal thereon, the Project Loan Certificate will be payable in monthly installments of principal and interest, subject to prepayment due to prepayment, assignment for insurance benefits or acceleration of the Mortgage Note. Each installment on the Project Loan Certificate is applied first to interest and then in reduction of the principal balance then outstanding on the Project Loan Certificate. The amount of principal due on the Project Loan Certificate is the scheduled principal amortization currently due on the Mortgage Note.

The monthly installments are subject to adjustment by reason of any prepayments or other early or unscheduled recoveries of principal on the Mortgage Note. The Lender is required to pay to the Trustee or its nominee, as holder of the Ginnie Mae Certificates, monthly installments of not less than the interest due on the Ginnie Mae Certificates at the rate specified in the Ginnie Mae Certificates, together with any scheduled installments of principal, whether or not collected from the Borrower, and any prepayments or early recoveries of principal.

Liability of Lender

The Ginnie Mae Certificates will not constitute a liability of nor evidence any recourse against the Lender. The Ginnie Mae Certificates are based on and backed by the Mortgage on the real property securing the Mortgage Note. Recourse may be had by the Trustee only to Ginnie Mae in the event of any failure of timely payment as provided for in the Ginnie Mae Guaranty Agreement.

THE MORTGAGE NOTE AND MORTGAGE

This summary and explanation of the Mortgage Note and Mortgage does not purport to be comprehensive and is qualified in its entirety by reference to the Mortgage Note and Mortgage for full and complete statements of their provisions. The Mortgage Note and Mortgage are expected to be executed by the Borrower, and the Mortgage Note initially endorsed for insurance benefits by FHA, on or prior to the Closing Date. The Lender will be obligated to fund the Mortgage Loan only after FHA has initially endorsed the Mortgage Note for insurance benefits.

The Mortgage from the Borrower to the Lender will secure the Mortgage Note. The Mortgage Loan proceeds will be disbursed by the Lender in accordance with the progress of Development construction and the Lender will be reimbursed for such advances upon the purchase of the Initial Construction Loan Certificate, the funding of interim Construction Loan Certificates and the purchase of the Project Loan Certificate by the Trustee. The Mortgage Loan disbursements

will be insured by FHA as construction progresses under Section 221(d)(4) of the National Housing Act and the regulations thereunder. Upon the purchase of Construction Loan Certificates, the Lender will make payments thereon which may differ from the Mortgage Note payments. Upon the purchase of the Project Loan Certificate from the Lender by the Trustee, monthly scheduled installments of principal and interest on the Mortgage Note (less the Ginnie Mae guaranty fee and the Lender's servicing fee) will be passed through to the Trustee as scheduled payments of principal and interest on the Ginnie Mae Certificate.

It is expected that the Mortgage Loan, as evidenced by the Mortgage Note and Mortgage: (a) will be insured by FHA pursuant to and in accordance with the provisions of Section 221(d)(4) of the National Housing Act and applicable regulations thereunder, as evidenced by the endorsement by FHA of the Mortgage Note evidencing the Mortgage Loan; (b) will be in the principal amount of \$16,860,000 which is subject to being reduced, without penalty, upon final endorsement of the Mortgage Loan for FHA Insurance; (c) will bear interest at the rate of 5.67% per annum up to and including the earlier of the date of final endorsement of the Mortgage Note or the last day of December 2008; thereafter, the Mortgage Loan will bear interest at the rate of 5.42% per annum; (d) will have a final maturity of not later than January 1, 2047; (e) will be payable interest only monthly through a date not later than January 1, 2009 and will thereafter be payable in equal monthly installments of principal and interest, commencing not later than February 1, 2009 (f) will be secured on a nonrecourse basis; and (g) will not be subject to prepayment prior to December 31, 2016, except that (i) the Mortgage Note will be subject to mandatory prepayment in whole or in part at any time without premium or penalty, from the proceeds of any casualty insurance or condemnation awards received following a partial or total destruction or condemnation of the Development, in the event and to the extent that such casualty proceeds or condemnation awards are not applied to the repair or restoration of the Development in accordance with the Ginnie Mae Documents, (ii) the Mortgage Note will be subject to prepayment in whole or in part at the option of the Borrower, on the first or last day of any month commencing December 31, 2016, upon at least 30 days' advance written notice to the Lender, and upon payment of the principal amount of the Mortgage Note then outstanding together with the applicable prepayment premium attributable to the balance of the Mortgage Note, (iii) the Mortgage Note is subject to partial prepayment to the extent required by FHA based upon any cost certification or other report required to be provided to FHA, and (iv) the Mortgage Note will be subject to prepayment in whole or in part without the consent of the Lender and without prepayment penalty if HUD determines that prepayment will avoid an FHA insurance claim and therefore is in the best interest of the Federal government, notwithstanding any prepayment prohibition imposed and/or penalty required by the Mortgage Note with respect to prepayments made prior to December 31, 2016. In the event of a partial prepayment described in subparagraphs (i), (ii), (iii) or (iv) above, the Mortgage Note may be reamortized to reflect its reduced principal amount.

If the Borrower makes any such prepayment on the Mortgage Note, the amount prepaid will be paid to the Lender and passed through to the Trustee, as a prepayment on the Ginnie Mae Certificate, and applied to the redemption of Bonds, as described under "THE BONDS — Redemption."

In the event of a default on the Mortgage Note, the Lender has the option to (i) foreclose on the Development and then convey title to FHA or (ii) assign the Mortgage Note and related security to FHA. In either event, the proceeds of the FHA mortgage insurance would be paid to the Lender and forwarded to the Trustee as a payment on the Construction Loan Certificates or the Project Loan Certificate, except to the extent that amounts have been previously advanced by the Lender to the Trustee. Such payments would be used by the Trustee to redeem Bonds. See "THE BONDS — Redemption of Bonds — Extraordinary Mandatory Redemption."

THE DEVELOPMENT

The following information concerning the Development has been provided by representatives of the Borrower and has not been independently confirmed or verified by either the Underwriter or the Issuer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Description of the Development

The Development is a proposed 252-unit multifamily rental community to be located at approximately the 700 block of Gross Road, in Mesquite, Texas. When completed, the Development is expected to consist of 12 garden-style buildings on an approximately 17.3 acre site.

Each unit is expected to include a private patio or balcony with locked storage, oven, range, refrigerator, dishwasher, garbage disposal, microwave, window treatments, ceiling fans and walk-in closets. The unit mix of the Development is anticipated to be as follows:

<u>Number of Units</u>	<u>Unit Type</u>	<u>Square Feet</u>
72	1BR/1BA	742-777
132	2BR/2BA	966-994
48	3BR/2BA	1,118-1,141

The Development is expected to have a clubhouse with a community room, a furnished fitness center room, vending machines, activity center, community laundry room and computer room. The Development is also expected to include a swimming pool, a playground, several barbeque grills, picnic tables, controlled gate access to the community, full perimeter fencing and 504 parking spaces.

Construction of the Development is expected to begin in July 2007 and be completed in September 2008.

Estimated Construction Costs

The total estimated construction cost for the Development as accepted by FHA at the time of issuing its firm commitment is set forth in the column entitled "FHA BUDGET." The costs were calculated by HUD based on information supplied by the Borrower.

FHA BUDGET

Land Improvements	\$2,671,755
Structures	12,202,626
General requirements	594,803
Fees (Contractors, Architect, other)	1,755,740
Carrying Charges and Financing	1,623,295
Legal, Organization and Audit Fees	49,600
Bond Costs	<u>584,488</u>
TOTAL DEVELOPMENT COST (Excluding Land)	\$19,462,307
Estimated Market Price of Land	<u>1,512,000</u>
TOTAL REPLACEMENT COST OF DEVELOPMENT	<u>\$20,974,307</u>

The FHA Budget shown above is the budget that was submitted for approval to FHA, however, the current actual expectations regarding project expenditures may deviate from the FHA Budget outlined above. The Issuer and the Underwriter have not independently examined the above FHA Budget.

Funding Overview

The Borrower currently expects to fund the acquisition and construction costs of the Development from the following sources and in the following amounts:

Mortgage Loan	\$16,860,000
Investor Limited Partner equity	<u>7,063,588</u>
	<u>\$23,923,588</u>

The difference between the total cost of \$20,974,307 under the FHA Budget set forth above and the Borrower's estimate of \$23,923,588 is due primarily to certain costs included within the Borrower's budget not qualifying for FHA Budget purposes.

Projection of Development Operating Budget

In issuing its firm commitment, FHA accepted the following projection of revenues and expenditures, on a cash basis, of the Development for its first 12 months of operation after Development stabilization. Such projections are based on information supplied to FHA by the Borrower and are based on an assumed occupancy rate of 93%.

Effective gross income	\$2,268,220
Total operating expenses	<u>1,019,113</u>
Available for debt service	<u>\$1,249,107</u>
Annual payments on Mortgage Note ⁽¹⁾	<u>\$1,048,068</u>

(1) Based upon Mortgage Note rate of 5.42% per annum, but does not include an annual mortgage insurance premium equal to .45% of the outstanding principal amount of the Mortgage Note.

The operating projections shown above are based on assumptions concerning future events and circumstances which may not materialize. Neither the Underwriter nor the Issuer have approved of or reviewed the above projections.

THE PRIVATE PARTICIPANTS

The following information concerning the private participants has been provided by representatives of the private participants and has not been independently confirmed or verified by either the Underwriter or the Issuer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Borrower

The Borrower is a Texas limited partnership organized in 2006 for the purpose of developing, owning and operating the Development. The sole general partner of the Borrower is OPLP Mesquite Creek, Inc. (the "General Partner"). The General Partner has general responsibility and sole authority for supervising the operations of the Borrower, and is responsible for the development, construction and management of the Development. Hal Thorne is the President of the General Partner. Mr. Thorne has developed single-family residential homes, duplexes and multifamily housing projects in the State for the past 25 years. Mr. Thorne has also been involved in the development of retail shopping centers and the purchase, management and operation of various real estate enterprises.

Simultaneously with the issuance of the Bonds, the Borrower expects to sell a 99.99% interest in the Borrower to Red Capital Tax Credit Fund XVII, LLC, an Ohio limited liability

company (the "Investor Limited Partner"), and its affiliates. The Investor Limited Partner is organized and permanently advised by Red Capital Markets, Inc. The Investor Limited Partner will make its investment based upon the expected qualification of the Development for low income housing tax credits under Section 42 of the Code. The Investor Limited Partner is expected to fund the tax credit equity, expected to be approximately \$7,063,588, in stages according to the terms and conditions of the Borrower's partnership agreement. However, if the conditions for a payment are not met, such payments will not be made. The total amount to be funded and the timing of the fundings are subject to numerous adjustments and conditions which could result in the amounts funded and/or the timing or even occurrence of the funding varying significantly from the Borrower's projections on the Closing Date and neither the Issuer nor the Underwriter make any representations as to the availability of such funds.

The Borrower does not intend to acquire any substantial assets or engage in any substantial business activities other than those related to the ownership of the Development. However, the General Partner and affiliates of the Investor Limited Partner may engage in the acquisition, development, ownership and arrangement of similar types of housing projects, including housing projects in the immediate vicinity of the Development that may compete with the Development.

The Mortgage Note will be a nonrecourse obligation of the Borrower, and no partner of the Borrower will be personally liable with respect to payments on the Mortgage Note or the Borrower's obligations under the Mortgage, except as otherwise provided under the HUD Regulatory Agreement. None of the Investor Limited Partner's or General Partner's revenue has been pledged or is available to pay debt service on the Mortgage Note. Therefore, the Bondholders have no recourse against the Investor Limited Partner or General Partner for payments on the Bonds, and none of the Borrower's, Investor Limited Partner's or General Partner's financial statements are included in this Official Statement. Furthermore, except to the extent expressly set forth herein, no representation is made that the Borrower will have substantial funds available for the operation of the Development. If, however, the Borrower does not operate the Development successfully, the Borrower could lose its equity in the Development.

Managing Agent

Alpha-Barnes Real Estate Services, a Texas Joint Venture, is the intended managing agent for the Development (the "Managing Agent"). The Managing Agent was formed in 2000 by the merger of M-DC Properties, Inc. and Barnes Real Estate Services, Inc. Both of those firms have been in business since 1990. The Managing Agent currently employs approximately 235 people. The value of property presently under management contract is approximately \$400 million.

The mailing address of the Managing Agent is 12720 Hillcrest, Suite 400, Dallas, Texas 75230.

Architect

The design and inspecting architect for the Development will be RPGA Design Group, Inc., a Texas corporation, (the "Architect"). The Architect currently engages in general construction architecture and construction management. The Architect's practice includes conventional multifamily housing projects, assisted living facilities, senior housing facilities and some general commercial work.

As required by HUD, the Architect will certify that, to the best of its knowledge, belief and professional judgment, construction of the Development in accordance with the plans and specifications is permissible under all applicable state and local codes, ordinances and regulations and will comply with HUD's minimum property standards and other applicable HUD design requirements.

An additional third-party architect will be engaged by HUD through separate agreement to review and countersign all construction draws approved by the Architect.

The mailing address of the Architect is 101 South Jennings Avenue, Suite 100, Fort Worth, Texas 76104.

Contractor

The general contractor for the Development will be RES ICD, LP, a Texas limited partnership (the “General Contractor”). The General Contractor, which was formed in 2003, is qualified to do business as a general contractor in Texas and specializes in multifamily housing projects. The General Contractor has constructed in excess of 2,384 units of multifamily housing in Texas and Arkansas. Currently, the General Contractor has approximately \$69,488,242 in construction work under contract.

The mailing address of the General Contractor is 3110 West Southlake Boulevard, Suite 120, Southlake, Texas 76092.

The Mortgage Lender/Servicer

The Lender is a HUD-approved lender and Ginnie Mae-approved issuer of Ginnie Mae-guaranteed mortgage-backed securities. The Lender is an originator, servicer and subservicer of FHA-insured mortgage loans and of Ginnie Mae loan pools.

The mailing address of the Lender is 8115 Preston Road, Suite 500, Dallas, Texas 75225.

The Trustee

The Trustee is Wells Fargo Bank, National Association, a national banking association. The Trustee currently serves as trustee for additional tax exempt bond transactions, including multifamily bond transactions.

The mailing address of the Trustee is 1445 Ross Avenue, 2nd Floor, Dallas, Texas 75202.

CERTAIN BONDHOLDERS’ RISKS

The purchase of the Bonds will involve a number of risks. The following is a summary, which does not purport to be comprehensive or definitive, of some of such risk factors.

Early Redemption and Loss of Premium

Purchasers of Bonds, including those who purchase Bonds at a price in excess of their principal amount or who hold such a Bond trading at a price in excess of par, should consider the fact that the Bonds are subject to redemption at a redemption price equal only to their principal amount (subject to the exception described below) plus accrued interest in the event such Bonds are redeemed under certain circumstances prior to maturity. This could occur, for example, in the event the Mortgage Note is prepaid as a result of a casualty or condemnation award payments affecting the Development or there is a default under the Mortgage. See “THE BONDS — Redemption — Extraordinary Mandatory Redemption.” The Bonds are also subject to optional redemption commencing on January 20, 2017. See “THE BONDS — Redemption — Optional Redemption.”

The Bonds are also subject to redemption in whole on the 15th day following the Initial Construction Loan Certificate Delivery Date in the event the Initial Construction Loan Certificate is not delivered to the Trustee by the Initial Construction Loan Certificate Delivery Date (as such date may be extended pursuant to the Indenture) in an amount equal to at least \$1,400,000. The Bonds are also subject to special mandatory redemption in part in an amount equal to the remainder of the aggregate amount of Bonds Outstanding less the amount of the Project Loan Certificate delivered to the Trustee in the event the Project Loan Certificate is delivered in a principal amount less than \$16,860,000. If the Project Loan Certificate is not delivered to the Trustee by the Delivery Date, (as such date may be extended as described in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Disbursements and Transfers from Acquisition Fund — Project Loan Certificate”), the Bonds will be redeemed as follows: (a) in part,

on the 15th day following the Delivery Date, in an amount equal to the remainder, if any, of (i) the aggregate principal amount of the Bonds then Outstanding less (ii) the amount of the Construction Loan Certificates as delivered to the Trustee; and (b) in whole, on the 15th day following the maturity date of the Construction Loan Certificates. See “THE BONDS — Redemption — Extraordinary Mandatory Redemption.”

Limited Security

The Bonds are limited obligations of the Issuer payable solely from certain funds pledged to and held by the Trustee pursuant to the Indenture.

Taxability of the 2007A Bonds

THE SERIES 2007A BONDS ARE NOT SUBJECT TO REDEMPTION, AND THE RATE OF INTEREST ON THE SERIES 2007A BONDS IS NOT SUBJECT TO ADJUSTMENT, BY REASON OF THE INTEREST ON THE SERIES 2007A BONDS BEING INCLUDED IN GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION. Such event could occur if the Borrower (or any subsequent owner of the Development) does not comply with the provisions of the Regulatory Agreement and the Loan Agreement which are designed, if complied with, to satisfy the continuing compliance requirements of the Code in order for the interest on the Series 2007A Bonds to be excludable from gross income for purposes of federal income tax. See “TAX MATTERS” for a discussion of the provisions of the Indenture, the Loan Agreement, the Regulatory Agreement and the other Financing Documents which provide that such documents are subordinate to the National Housing Act, the Mortgage Loan Documents, all applicable HUD mortgage insurance regulations and related administrative requirements, applicable Ginnie Mae regulations and administrative requirements, the Ginnie Mae Documents or if applicable, Section 8 of the Housing Act and the regulations thereunder.

Regulation of Development; Absence of Rent Subsidy on Low-Income Units

The Issuer, the Trustee and the Borrower have entered into the Regulatory Agreement requiring that the Development be maintained as a residential rental housing project within the meaning of Section 142(d) of the Code and the Treasury Regulations thereunder, and that 40% of the units in the Development be held available for occupancy by Low-Income Tenants whose income satisfies the requirements of Section 142(d) of the Code for the periods described under the captions APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.” The Regulatory Agreement also requires that the entire Development be offered for rental to the general public, prohibits rental of certain units to persons related to the Borrower and rentals on a transient basis and imposes other restrictions on the operation of the Development. See APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.”

The Borrower also intends to qualify 100% of the units in the Development for low income housing tax credits under Section 42 of the Code and will enter into a tax credit regulatory agreement (the “Tax Credit Regulatory Agreement”) with respect to such credits. The low income housing tax credit program imposes certain restrictions on the Development including certain rental restrictions, the primary restriction being that rents, including an allowance for utilities, for each unit in the Development may not exceed 30% of the imputed income of the tenant(s) of a unit. In addition, 100% of the units in the Development can only be rented to individuals whose income is 60% or less than the area median income for Dallas, Texas. The tax credit rent restrictions may adversely affect the ability to increase rents in the future, including in cases where operating costs rise, since tax credit rent restrictions are based on area median income limits. Furthermore, under the HUD Regulatory Agreement, certain other conditions on Development operations are imposed by FHA.

Notwithstanding the foregoing, there is no Section 8 Contract or other source of subsidy for rentals in the set-aside or any other units in the Development. While FHA generally takes this factor into account before initially endorsing the Mortgage Note for FHA insurance benefits and while the Borrower and the Lender have considered rent restrictions described above in preparing pro forma operating statements and in underwriting the Mortgage Loan, there can be no assurance that the Borrower will be able to rent the units in the Development at rentals that will enable it to make timely payments on the Mortgage Note. In the event of a default on the Mortgage Note, the Lender has the option to (i) foreclose on the Development and then convey title to FHA or (ii) assign the Mortgage Note and related security to FHA. In either event, the proceeds of the FHA mortgage insurance would be paid to the Lender and then transferred by the Lender to Ginnie Mae to reimburse Ginnie Mae for payments made to the Trustee pursuant to the Project Loan Certificate. Such payments made to the Trustee by Ginnie Mae would be used by the Trustee to redeem Bonds. See “THE MORTGAGE NOTE AND THE MORTGAGE” and “THE BONDS — Redemption — Extraordinary Mandatory Redemption.”

Enforcement of the Regulatory Agreement

As a condition of FHA’s insuring the Mortgage Note, the Regulatory Agreement and all other Financing Documents are made expressly subordinate to the obligations under the Mortgage and the other Mortgage Loan Documents, and enforcement of the Regulatory Agreement is expressly limited so that enforcement will not serve as the basis for a declaration of default under the Mortgage or an acceleration of the Mortgage Note or result in any claim under the Mortgage Note, or claim against the Development, the Mortgage Note proceeds, any reserve or deposit made with the Lender or another person or entity required by HUD in connection with the Mortgage Note transaction, or against the rents or other income from the Development for payment under the Regulatory Agreement. Consequently, the rights of the Issuer or the Trustee to enforce a claim for money damages would be severely restricted and, among other things, it would not be possible to accelerate the debt evidenced by the Mortgage Note or to seek FHA Insurance benefits. There is no provision in the Series 2007A Bonds or the Indenture for an acceleration of the indebtedness evidenced by the 2007A Bonds or payment of additional interest in the event interest on the 2007A Bonds were declared taxable, and the Issuer will not be liable under the 2007A Bonds or the Indenture for any such payment on the 2007A Bonds whatsoever. See “TAX MATTERS” and APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.”

Violation of Regulatory Agreements

The HUD Regulatory Agreement, the Regulatory Agreement and the Tax Credit Regulatory Agreement impose set-asides, income restrictions on tenants and rent restrictions on the Development. They also prohibit discrimination and impose other requirements. The consequences of a violation of any covenants by the Borrower include: (a) foreclosure of the Development, (b) loss of tax credits, which would require repayment of the tax credit equity investment, recapture of tax credits, and/or removal of the General Partner, (c) taxability of the interest on the 2007A Bonds, (d) injunctive relief and (e) damages. Any of these consequences would adversely affect the Borrower and the Development and the repayment of the Bonds.

Issuance of Ginnie Mae Certificates

It is anticipated that the Trustee will acquire the Project Loan Certificate on or before the Delivery Date as such date may be extended pursuant to the terms of the Indenture. The purchase of each Ginnie Mae Certificate is subject to the following conditions, among others: (i) the submission by the Lender to Ginnie Mae of certain documents required by Ginnie Mae in form and substance satisfactory to Ginnie Mae, (ii) the Lender’s continued compliance, on the date of issuance of the Ginnie Mae Certificate, with all of Ginnie Mae’s eligibility requirements, specifically including, but not limited to, certain net worth requirements and (iii) the Lender’s continued ability to issue and deliver each Ginnie Mae Certificate, as such ability may be affected

by the Lender's bankruptcy, insolvency or reorganization. In the event that the Project Loan Certificate is not issued as a result of a failure of any of the conditions listed above, the Bonds will be subject to early redemption in whole as discussed under "THE BONDS — Redemption — Extraordinary Mandatory Redemption."

Investment Agreement

Amounts held in the Acquisition Fund and the Bond Fund will be invested by the Trustee with the Investment Agreement Provider at the rate of 5.044% per annum and 4.781% per annum, respectively. The investment of the Acquisition Fund will terminate under the Investment Agreement on January 15, 2010 and the investment of the Bond Fund will terminate on January 20, 2047. Failure to achieve such rate of return would adversely affect the ability to make scheduled payments on the Bonds. The Issuer, the Borrower, the Investment Agreement Provider and the Underwriter make no representation as to the ability of any investments to yield a rate of return necessary to make scheduled payments of debt service on the Bonds.

The rating assigned to the Bonds by the Rating Agency will be dependent in part on the current long-term debt obligations of the Investment Agreement Provider. A downgrading of the rating of the Investment Agreement Provider's debt might result in the rating of the Bonds being downgraded. If the Rating Agency notifies the Investment Agreement Provider that the rating on the Investment Agreement Provider's long-term debt obligations has been suspended or withdrawn or has fallen below "Aa3" by the Rating Agency (a "Ratings Event"), the Investment Agreement Provider may, but is under no obligation to, (a) assign the Investment Agreement to a provider rated at least "Aa3" by the Rating Agency, (b) collateralize the Investment Agreement as set forth in the Investment Agreement, or (c) obtain a guaranty or insurance from a guarantor or other entity with a credit rating of at least "Aa3" by the Rating Agency. The Investment Agreement Provider will notify the Trustee in writing of a Ratings Event within five Business Days of the occurrence of the Ratings Event. In the event that the Investment Agreement Provider does not take such action to assign the Investment Agreement, obtain a guaranty or insurance or collateralize the Investment Agreement within 10 Business Days after the occurrence of a Ratings Event, then the Trustee will have the right but not the obligation to withdraw all moneys then held by the Investment Agreement Provider under the Investment Agreement upon notice as provided therein. If the Trustee does not exercise its right to withdraw the moneys then held by the Investment Agreement Provider under the Investment Agreement within 30 days of the commencement of such right to withdraw, such right will be deemed waived.

Neither the Issuer nor the Underwriter is under any obligation with respect to assuring the continued maintenance by the Investment Agreement Provider of a particular rating from the Rating Agency, or to find a substitute investment agreement in the event of a lowering of the Investment Agreement Provider's rating by the Rating Agency.

The Issuer and the Underwriter make no representation as to the ability of the Investment Agreement Provider or make payments in accordance with the Investment Agreement.

Competing Facilities

The Issuer and persons who may be affiliated with the Issuer are not prohibited from developing or operating other facilities that could compete with the Development for tenants. Any competing facilities, if so constructed, could adversely affect occupancy and revenues of the Development.

Risks of Construction

Construction of the Development is expected to commence in July 2007. The Borrower has made arrangements which it anticipates will be sufficient to assure the completion of the construction of the Development in September 2008. It is estimated that final endorsement of the Mortgage Note will be obtained within such period of time. No assurance can be given, however,

that the arrangements made by the Borrower are sufficient and that these steps will be completed prior to that date. If the Initial Construction Loan Certificate is not delivered to the Trustee by the Initial Construction Loan Certificate Delivery Date in an amount equal to at least \$1,400,000, the Bonds will be redeemed on the fifteenth day following the Initial Construction Loan Certificate Delivery Date in whole at a price of par plus accrued interest to the redemption date. If the Mortgage Note is not finally endorsed by FHA and the Project Loan Certificate is not delivered to the Trustee on or before the Delivery Date (unless such date is extended pursuant to the Indenture), the Bonds are required to be redeemed as follows: (a) in part, on the 15th day following the Delivery Date, in an amount equal to the remainder, if any, of (i) the aggregate principal amount of the Bonds then Outstanding less (ii) the amount of the Construction Loan Certificates as delivered to the Trustee; and (b) in whole, on the 15th day following the maturity date of the Construction Loan Certificates. See the "THE BONDS — Redemption — Extraordinary Mandatory Redemption." The anticipated date for completion of construction of the Development, for delivery of Construction Loan Certificates by the Initial Construction Loan Certificate Delivery Date and for final endorsement of the Mortgage Note by FHA may be subject to various delays, including delays in construction, whether or not occasioned by default, labor or contract disputes, defects in plans, specifications or materials, and unanticipated site conditions, disputes or difficulties in connection with obtaining regulatory permits, delays in cost certification with FHA.

Rental Market Conditions

The economic feasibility of the Development depends in large part upon being substantially occupied. Although representatives of the Borrower believe, based on surveys of the area where the Development will be located, that a substantial number of persons of low and moderate incomes need housing facilities such as the Development, no assurance can be given that such occupancy levels will be achieved or sustained once the Development is constructed. Occupancy of the Development may be affected by competition from existing low income housing facilities or from low income housing facilities which may be constructed in the area served by the Development.

Secondary Market and Prices

The Underwriter will not be obligated to purchase any of the Bonds and no representation is made concerning the existence of any secondary market for the Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Bonds contemplated by this Official Statement, and no assurance can be given that the Bonds can be resold at their initial offering prices for any period of time.

Estimated Development Expenses; Management

The success of the Development depends upon economic conditions, successful management of the Development and other factors. Furthermore, should management of the Development in the future prove to be inefficient, increases in operating expenses might exceed increases in rents which can be supported by market conditions. The economic feasibility of the Development also depends to a large extent on operating expenses. No assurances can be given that moneys available to the Borrower from operation of the Development will be sufficient to make the required payments on the Mortgage Note.

Information Not Verified

Information with regard to the Development has been obtained from the Borrower. Much of that information involves predictions with regard to future events, such as the time required to complete the Development and the initial operating expenses of the Development; such information is, by its nature, not subject to verification. Aside from the analyses made by FHA in determining to insure the Mortgage Note, no feasibility study or other independent verification of the Development has been undertaken.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement.

TAX MATTERS

Series 2007A Bonds

In the opinion of Bond Counsel, assuming compliance with certain covenants and based on certain representations, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Bond during any period while it is held by a “substantial user” of the Development or a “related person” within the meaning of Section 147(a) of the Code. The Series 2007A Bonds are “private activity bonds” under the Code and, therefore, interest on the Series 2007A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2007A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond-financed project, limitations on the use of bond proceeds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States, and a requirement that the Issuer file an information report with the Internal Revenue Service. The Issuer and the Borrower have covenanted in the Indenture, Loan Agreement and Regulatory Agreement that they will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Indenture, Loan Agreement and Regulatory Agreement pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2007A Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer, the Borrower and the Underwriter with respect to matters solely within the knowledge of the Issuer, the Borrower and the Underwriter, respectively, which Bond Counsel has not independently verified. If the Issuer or the Borrower should fail to comply with the covenants in the Indenture, Loan Agreement and Regulatory Agreement or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series 2007A Bonds could become includable in gross income for federal income tax purposes from the date of original delivery of the Series 2007A Bonds, regardless of the date on which the event causing such includability occurs.

In the case of bonds used to provide residential rental housing, such as the Series 2007A Bonds, Section 142 of the Code requires that such bonds also satisfy the tenant eligibility requirements applicable to “qualified residential rental projects” under Section 142(d) of the Code. Section 142(d) of the Code requires that at all times during the Qualified Project Period a certain percentage of the units in the Development are to be occupied by individuals with income below certain levels as provided in Section 142(d) of the Code. The “Qualified Project Period” for the Development will commence on the first day on which 10 percent of the units in the Development are occupied and will end on the latest of the following: (1) the date that is 15 years after the date on which at least 50 percent of the units in the Development are first occupied; (2) the date on which no tax-exempt private activity bond (as defined in Section 141 of the Code) remains outstanding; or (3) the date on which any assistance provided with respect to each such project under Section 8 of the United States Housing Act of 1937, as amended, terminates. The United States Department of Treasury issued regulations (the “Regulations”) setting forth requirements for compliance with a comparable provision of the predecessor of Section 142 of the Code. The

Regulations require, among other things, that (1) the low-income set aside requirement of this predecessor provision must be met on a continuous basis during the Qualified Project Period, and (2) all of the units in the Development must be rented or available for rental to the general public on a continuous basis during the Qualified Project Period. Under the Regulations, the failure to satisfy the foregoing requirements on a continuous basis or the failure to satisfy any of the other requirements of the Regulations will, unless corrected within a reasonable period of not more than 60 days after such non-compliance is first discovered or would have been discovered by the exercise of reasonable diligence, cause interest on the Series 2007A Bonds to be includable in gross income for federal income tax purposes as of the date of their original issue, irrespective of the date such non-compliance actually occurred.

The Issuer has established requirements, procedures and safeguards that it believes to be sufficient to ensure compliance with the requirements of the Code and the Regulations with respect to the Development. Such requirements, procedures and safeguards are incorporated into the Regulatory Agreement, the Loan Agreement and the Indenture. In addition, the Issuer and the Trustee have each covenanted in the Indenture to follow and enforce such procedures to ensure compliance with such requirements. However, no assurance can be given that in the event of a breach of any of the provisions or covenants described above, the remedies available to the Issuer and the Trustee can be judicially enforced in such manner as to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income for federal income tax purposes of the interest on the Series 2007A Bonds. Furthermore, if the Borrower fails to comply with the Regulatory Agreement or the Loan Agreement, the enforcement remedies available to the Issuer, the Trustee and the holders of the Series 2007A Bonds are severely limited and may be inadequate to prevent the loss of the excludability from gross income for federal income tax purposes of the interest on the Series 2007A Bonds retroactive to the date of issuance of the Series 2007A Bonds. In such event, there is no provision for acceleration or redemption of the Series 2007A Bonds, and the holders of the Series 2007A Bonds may be required to hold the Series 2007A Bonds until maturity bearing interest that is includable in gross income for federal income tax purposes.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26 percent of such taxable excess as does not exceed \$175,000 plus 28 percent of so much of such taxable excess as exceeds \$175,000. The Code also imposes a 20 percent alternative minimum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," such as the Series 2007A Bonds, issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series 2007A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations and the environmental tax imposed on corporations.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on Series 2007A Bonds, received or accrued during the year.

Prospective purchasers of the Series 2007A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign

corporations doing business in the United States may be subject to the “branch profit tax” on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 2007A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Series 2007A Bonds.

BOND COUNSEL’S OPINIONS ARE BASED ON EXISTING LAW, WHICH IS SUBJECT TO CHANGE. SUCH OPINIONS ARE FURTHER BASED ON BOND COUNSEL’S KNOWLEDGE OF FACTS AS OF THE DATE THEREOF. BOND COUNSEL ASSUMES NO DUTY TO UPDATE OR SUPPLEMENT ITS OPINIONS TO REFLECT ANY FACTS OR CIRCUMSTANCES THAT MAY THEREAFTER COME TO BOND COUNSEL’S ATTENTION OR TO REFLECT ANY CHANGES IN ANY LAW THAT MAY THEREAFTER OCCUR OR BECOME EFFECTIVE. MOREOVER, BOND COUNSEL’S OPINIONS ARE NOT A GUARANTEE OF RESULT AND ARE NOT BINDING ON THE INTERNAL REVENUE SERVICE (THE “SERVICE”); RATHER, SUCH OPINIONS REPRESENT BOND COUNSEL’S LEGAL JUDGMENT BASED UPON ITS REVIEW OF EXISTING LAW AND IN RELIANCE UPON THE REPRESENTATIONS AND COVENANTS REFERENCED ABOVE THAT IT DEEMS RELEVANT TO SUCH OPINIONS. THE SERVICE HAS AN ONGOING AUDIT PROGRAM TO DETERMINE COMPLIANCE WITH RULES THAT RELATE TO WHETHER INTEREST ON STATE OR LOCAL OBLIGATIONS IS INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. NO ASSURANCE CAN BE GIVEN WHETHER OR NOT THE SERVICE WILL COMMENCE AN AUDIT OF THE SERIES 2007A BONDS. IF AN AUDIT IS COMMENCED, IN ACCORDANCE WITH ITS CURRENT PUBLISHED PROCEDURES THE SERVICE IS LIKELY TO TREAT THE ISSUER AS THE TAXPAYER AND THE OWNERS MAY NOT HAVE A RIGHT TO PARTICIPATE IN SUCH AUDIT. PUBLIC AWARENESS OF ANY FUTURE AUDIT OF THE SERIES 2007A BONDS COULD ADVERSELY AFFECT THE VALUE AND LIQUIDITY OF THE SERIES 2007A BONDS DURING THE PENDENCY OF THE AUDIT REGARDLESS OF THE ULTIMATE OUTCOME OF THE AUDIT.

Bond Counsel’s opinions also assume continuous compliance with all covenants and requirements set forth in the Indenture, the Loan Agreement and the Regulatory Agreement pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2007A Bonds for federal income tax purposes. Prospective purchasers should be aware that HUD has required the inclusion of Section 12.08 in the Indenture, Section 7.8 in the Loan Agreement and Section 26 in the Regulatory Agreement. These sections provide that the provisions of the Indenture, the Loan Agreement, the Regulatory Agreement and the other Financing Documents are subordinate to and may not conflict with the National Housing Act, the Mortgage Loan Documents, all applicable HUD mortgage insurance regulations and related administrative requirements, applicable Ginnie Mae regulations and administrative requirements, the Ginnie Mae Documents or if applicable, Section 8 of the U.S. Housing Act of 1937 and the regulations thereunder. Bond Counsel expresses no opinion as to whether any of the covenants and requirements set forth in the Indenture, the Loan Agreement, the Regulatory Agreement or any of the other Financing Documents conflict with National Housing Act, the Mortgage Loan Documents, applicable HUD mortgage insurance regulations and related administrative requirements, applicable Ginnie Mae regulations and administrative requirements, the Ginnie Mae Documents or if applicable, Section 8 of the U.S. Housing Act of 1937 and the regulations thereunder. Furthermore, Bond Counsel expresses no opinion as to whether the interest on the Series 2007A Bonds will be excludable from gross income for federal income tax purposes in the event that Section 12.08 of the Indenture, Section 7.8 of the Loan Agreement or Section 26 of the Regulatory Agreement precludes compliance with any of the covenants or requirements of the Indenture, the Loan Agreement, the Regulatory Agreement or any of the other Financing

Documents. See APPENDIX B — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — HUD Requirements”, APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT — HUD Requirements” and APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT — HUD Requirements”.

Series 2007B Bonds

The Issuer has taken no action to cause the interest on the Series 2007B Bonds to be excludable from gross income for the purposes of United States federal income taxation. Therefore, it is assumed for the purposes of this Official Statement that income derived from the Series 2007B Bonds by an owner of the Series 2007B Bonds is subject to United States federal income taxation.

UNDERWRITING

Citigroup Global Markets Inc. (the “Underwriter”) has agreed to purchase the Bonds for which they will receive an underwriter’s fee in an amount equal to \$198,600.00, from which the Underwriter will pay various fees and expenses, including the fees of its counsel. On the Closing Date, the Underwriter will pay to the Trustee \$70,000 for deposit into the Capitalized Interest Account. The Borrower has agreed to promptly reimburse the Underwriter for such deposit.

The Borrower has agreed to indemnify the Issuer and the Underwriter with respect to information in the Official Statement relating to the Borrower, the Development and the description of the sources and uses of proceeds.

RATING

Moody’s Investors Service, Inc. (the “Rating Agency”) assigned the rating to the Bonds set forth on the cover page hereto. The rating reflects only the view of the Rating Agency at the time the rating was issued and an explanation of the significance of such rating may be obtained from the Rating Agency. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating can be expected to have an adverse effect on the market price of the Bonds.

The rating shown on the cover page of this Official Statement is dependent in part on the fact that certain funds will be invested in the Investment Agreement. A downgrading of the long-term credit rating of the Investment Agreement Provider may have an adverse effect on the rating of the Bonds.

CERTAIN LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters will be passed upon for the Borrower by Shackelford, Melton & McKinley, LLP, Dallas, Texas, and for the Lender by Krooth & Altman LLP, Washington, D.C. Certain legal matters will be passed upon by Katten Muchin Rosenman LLP, Washington, D.C., counsel to the Underwriter.

The payment of the fees of Katten Muchin Rosenman LLP is contingent upon issuance of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

ABSENCE OF LITIGATION

The Issuer

There is not now pending or, to the knowledge of the Issuer threatened, any proceeding or litigation against the Issuer seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present members or other officers of the Issuer to their respective officers is being contested.

At the time of the delivery of and payment for the Bonds, the Issuer will deliver a certificate to the effect that no litigation has been served upon the Issuer or, to its knowledge, is pending or threatened against the Issuer in any way affecting the existence of the Issuer or the titles of its officers to their respective offices, or seeking to restrain or to enjoin the issuance, sale or delivery of Bonds, or the collection or application of revenues and assets pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Loan Agreement or the other agreements and documents executed and delivered by the Issuer relating to the Bonds.

The Borrower

On the date of delivery of the Bonds, the Borrower will deliver a certificate to the effect that there are no legal proceedings pending or, to the Borrower's knowledge, threatened to restrain or enjoin the issuance, sale or delivery of the Bonds or the payment, collection or application of the proceeds thereof or of the revenues and other moneys and securities pledged or to be pledged under the Indenture or in any way contesting or affecting any authority for or the validity of the Bonds or the Indenture.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee and the owners of the Bonds upon an Event of Default under the Indenture, the Loan Agreement or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

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MISCELLANEOUS

Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Issuer and the purchasers or owners of any of the Bonds.

ONE MESQUITE CREEK, L.P., a Texas limited partnership

BY: **OPLP MESQUITE CREEK, INC.**, a Texas corporation

By: /s/ William B. Thorne
William B. Thorne
Vice President

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APPENDIX A

CERTAIN DEFINITIONS

In addition to the words and terms defined elsewhere in this Official Statement, the following words and terms as used herein will have the following meanings unless the context or use clearly indicates another or different meaning or intent.

“*Accountant*” means any firm of independent certified public accountants selected by the Issuer.

“*Acquisition Fund*” means the Acquisition Fund established by the Indenture.

“*Act*” means Chapter 2306, Texas Government Code, as amended.

“*Act of Bankruptcy*” means notice to the Trustee that the Borrower has become insolvent or has failed to pay its debts generally as such debts become due or has admitted in writing its inability to pay any of its indebtedness or has consented to or has petitioned or applied to any agency for the appointment of a receiver, liquidator, trustee or similar official for itself or for all or any substantial part of its properties or assets or that any such trustee, receiver, liquidator or similar official has been appointed or that insolvency, reorganization or liquidation proceedings (or similar proceedings) have been instituted by or against the Borrower.

“*Annual Income*” means the anticipated annual income of a person (together with the anticipated annual income of all persons that intend to reside with such person in one Unit) calculated pursuant to Section 8 of the Housing Act as required by Section 142(d) of the Code.

“*Arbitrage Consultant*” means any accountant, law firm or consultant experienced in the calculation of arbitrage rebate selected by the Borrower.

“*Arbitrage Consultant’s Fee*” means the fees charged or incurred by the Arbitrage Consultant in fulfillment of its obligations pursuant to the Loan Agreement and the Indenture, which fee shall be payable pursuant to the Loan Agreement.

“*Asset Oversight Agent*” means the Asset Oversight Agent pursuant to the Asset Oversight Agreement, currently the Texas Department of Housing and Community Affairs.

“*Asset Oversight Agent’s Fee*” will have the meaning set forth in the Asset Oversight Agreement, which fee will be payable pursuant to the Asset Oversight Agreement.

“*Asset Oversight Agreement*” means the Asset Oversight Agreement dated as of June 1, 2007, between the Borrower and the Asset Oversight Agent, as the same may be amended, modified or supplemented from time to time.

“*Authorized Denomination*” means \$5,000 or any integral multiple thereof.

“*Authorized Representative*” means, with respect to the Trustee, any trust officer thereof; with respect to the Issuer, any member of the governing body of the Issuer and any other officer or employee of the Issuer designated by certificate of any such member as authorized by the Issuer to perform a specified act or sign a specified document; and with respect to the Borrower, any officer of the Borrower or any other Person or Persons designated to act on behalf of the Borrower by a certificate of the Borrower filed with the Issuer and the Trustee.

“*Available Money*” means payments under the Ginnie Mae Certificates or any money with respect to which the Trustee has received an opinion of nationally recognized bankruptcy counsel to the effect that the use by the Trustee of such money in accordance with this Indenture would not constitute an avoidable preference or be subject to the automatic stay provisions of Sections 547 and 362(a), respectively, of the United States Bankruptcy Code or similar laws of the United States of America or the State in the event a petition in bankruptcy is filed by or against the entity depositing such money.

“*Bond*” or “*Bonds*” means collectively, the Series 2007A Bonds and the Series 2007B Bonds.

“*Bond Counsel*” means Vinson & Elkins L.L.P. or any other firm of nationally recognized bond counsel experienced in tax exempt private activity bond financing selected by the Issuer.

“*Bond Fund*” means the Bond Fund established pursuant to the Indenture.

“*Bond Purchase Agreement*” means the Bond Purchase Agreement among the Issuer, the Borrower, the Underwriter and any other party as set forth therein.

“*Bond Register*” means the books for registration of the Bonds kept for the Issuer by the Bond Registrar as provided in the Indenture.

“*Bond Registrar*” means the paying agent and bond registrar for the Bonds (initially the Trustee having its operations office located in Minneapolis, Minnesota or other office designated by the Trustee), which will be utilized to perform payments and transfers.

“*Bond Year*” means each one-year period that ends at the close of business on the day selected by the Borrower. The first and last Bond Years may be short periods. If no day is selected by the Borrower before the earlier of the final Maturity Date of the 2007A Bonds or the date that is five years after the Closing Date, then Bond Years end on each anniversary of the Closing Date and on the Maturity Date.

“*Bondholder*” or “*Bondowner*” or “*Holder*” or “*Owner*” means, when used with respect to the Bonds, the owner of a Bond then outstanding under the Indenture as shown on the registration books maintained by the Trustee pursuant to the Indenture.

“*Borrower*” means One Mesquite Creek, L.P., a Texas limited partnership, or its successor and assigns.

“*Borrower’s Tax Certificate*” means the Borrower’s Tax Certificate delivered to the Issuer by the Borrower on the Closing Date in which the Borrower certifies to various facts relating to the Development that bear on the exclusion of interest on the 2007A Bonds from gross income for purposes of federal income taxation.

“*Business Day*” means any day, other than a Saturday or a Sunday, on which banking institutions are open in the State of Texas and in the states in which the principal corporate trust and payment offices of the Trustee and any of the offices of the Bond Registrar designated from time to time by the Bond Registrar for the transfer or exchange of Bonds are located.

“*Capitalized Interest Account*” means the Capitalized Interest Account of the Acquisition Fund established pursuant to the Indenture.

“*Closing Date*” means the date upon which the Bonds are issued and delivered in exchange for the proceeds representing the purchase price of the Bonds paid by the original purchasers thereof, which is anticipated to be June 26, 2007.

“*Code*” or “*Internal Revenue Code*” means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder, or any successor to the Internal Revenue Code of 1986, as amended. Reference to any particular Code section shall, in the event of such successor Code, be deemed to be reference to the successor to such Code section.

“*Computation Date*” means each Installment Computation Date and the Final Computation Date.

“*Condemnation*” or the phrase “*eminent domain*” shall include the taking or requisition by governmental authority or by a person, firm or corporation acting under governmental authority or a conveyance made under threat of such taking or requisition, and “*Condemnation Award*” shall mean payment for property condemned or conveyed under Condemnation or threat of Condemnation.

“*Construction Loan Certificate*” means any Ginnie Mae Certificate, other than the Project Loan Certificate, which represents an amount of proceeds of the Mortgage Loan advanced by the Lender to the Borrower.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement dated as of June 1, 2007 among the Borrower, the Dissemination Agent (as defined in such agreement) and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“*Costs of Issuance*” means costs to the extent incurred in connection with, and allocable to, the issuance of the Series 2007A Bonds within the meaning of Section 147(g) of the Code including, without limitation, printing costs, costs of reproducing documents, counsel fees (including Bond Counsel, Trustee’s counsel, Issuer’s counsel and Owner’s counsel, as well as any other specialized counsel fees incurred in connection with the issuance of the Series 2007A Bonds), initial Trustee fees and expenses with respect to the Series 2007A Bonds, any fee to the Issuer or expenses incurred by the Issuer that pays or reimburses the Issuer for direct and indirect costs of the Issuer related to the issuance of the Series 2007A Bonds, the expenses of the initial purchaser in acquiring the Series 2007A Bonds and legal fees and charges, financial advisory fees, placement agent’s fees and accountant fees related to issuance of the Series 2007A Bonds, costs of credit ratings, bond registrar and paying agent fees, title insurance fees, survey fees and recording and filing fees, including any applicable documentary stamp taxes, intangible tax and the mortgage registration tax, fees and charges for execution, transportation and safekeeping of the Series 2007A Bonds, certification and authentication fees, public approval process costs, engineering and feasibility study costs, guarantee fees, other than for qualified guarantees (as defined in Section 1.148-4(f) of the Regulations) and charges and fees in connection with the foregoing.

“*Costs of Issuance Fund*” means the Costs of Issuance Fund established by the Indenture.

“*County*” means Dallas County, Texas.

“*Delivery Date*” means the date on which the Project Loan Certificate is delivered to the Trustee or its nominee, which shall be on or before December 31, 2009, unless extended in accordance with the Indenture. If the Project Loan Certificate is not delivered to the Trustee or its nominee on or before December 31, 2009 or, if applicable, such date to which delivery has been extended in accordance with the Indenture, the Delivery Date shall be deemed to be December 31, 2009 or, if applicable, such date to which delivery has been extended.

“*Development*” means, collectively, the Development Facilities and the Development Site.

“*Development Facilities*” means the multifamily housing structure and related buildings and other improvements to be constructed on the Development Site by the Borrower as more fully set forth in the Regulatory Agreement, and all fixtures and other property owned by the Borrower and located on, or used in connection with, such buildings, structures and other improvements constituting the Development.

“*Development Site*” means the parcel or parcels of real property described in the Regulatory Agreement, and all rights and appurtenances appertaining thereunto.

“*DTC*” means The Depository Trust Company, New York, New York.

“*Eligible Tenants*” means (i) individuals and families of extremely low, low and very low income, (ii) families of moderate income (in each case in the foregoing clauses (i) and (ii) as such terms are defined by the Issuer under the Act), and (iii) Persons with Special Needs, in each case, with an Annual Income not in excess of 140% of the area median income for a four person household in the applicable standard metropolitan statistical area; provided that all Low-Income Tenants count as Eligible Tenants.

“*Expense Fund*” means the Expense Fund established pursuant to the Indenture.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the taking of which requires such an opinion, an unqualified opinion of Bond Counsel to the effect that such action will not impair the exclusion of interest on the Series 2007A Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon the original issuance of the Series 2007A Bonds).

“*FHA*” means the Federal Housing Administration of HUD or any successor entity and any authorized representatives or agents thereof, including the Secretary of HUD, the Federal Housing Commissioner and their representatives or agents.

“*FHA Insurance*” means the insurance of the Mortgage Note by FHA pursuant to Section 221(d)(4) of the National Housing Act.

“*FHA Commitment*” means that certain Commitment For Insurance of Advances issued by FHA to the Lender, as amended.

“*Final Computation Date*” means the date on which the final payment in full of all Outstanding Series 2007A Bonds is made.

“*Financing Documents*” means the Loan Agreement, the Indenture, the Regulatory Agreement, the Bonds, the Bond Purchase Agreement, the Continuing Disclosure Agreement and any other instrument or document executed in connection with the Bonds, together with all modifications, extensions, renewals and replacements thereof, but excluding the Ginnie Mae Documents and the Mortgage Loan Documents.

“*Funds*” means the Funds created and established pursuant to the Indenture, including, but not limited to, the Bond Fund, the Acquisition Fund, the Costs of Issuance Fund and the Expense Fund, but excluding the Rebate Fund.

“*Ginnie Mae*” means the Government National Mortgage Association, an organizational unit within HUD, or any successor entity and any authorized representatives or agents thereof, including the Secretary of HUD and his representatives or agents.

“*Ginnie Mae Certificate*” means a Construction Loan Certificate or the Project Loan Certificate, as the case may be, each being a mortgage-backed security issued by the Lender and guaranteed as to timely payment of interest, in the case of a Construction Loan Certificate, or of principal and interest, in the case of the Project Loan Certificate, by Ginnie Mae pursuant to the National Housing Act, as amended, and the regulations promulgated thereunder and backed by the Mortgage Loan.

“*Ginnie Mae Documents*” means the commitments issued by Ginnie Mae to the Lender to guaranty the Ginnie Mae Certificates and all other documents, certifications and assurances executed and delivered by the Lender, Ginnie Mae or the Borrower in connection with the Ginnie Mae Certificates.

“*Government Obligations*” means bonds, notes and other evidences of indebtedness of the United States of America or of any agency or instrumentality thereof backed by the full faith and credit of the United States of America.

“*Housing Act*” means the United States Housing Act of 1937, as amended, or a successor thereto.

“*HUD*” means the United States Department of Housing and Urban Development or its successors.

“*HUD Regulatory Agreement*” means the Regulatory Agreement between the Borrower and HUD with respect to the Development.

“*Indenture*” means the Trust Indenture dated as of June 1, 2007, by and between the Issuer and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Inducement Date*” means November 9, 2006.

“*Information Services*” means Financial Information, Inc.’s Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Service’s Called Bond Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody’s Investors Service Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor’s Corporation Called Bond Record, 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the

Securities and Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, or, as the Issuer may designate in a request of the Issuer delivered to the Trustee, to no such services.

“Initial Construction Loan Certificate” means the Construction Loan Certificate backed by the first advance under the Mortgage Loan issued by the Lender to the Trustee or its nominee in an amount not less than \$1,400,000, or such lesser amount if the Trustee receives confirmation of the rating then outstanding on the Bonds from the Rating Agency.

“Initial Construction Loan Certificate Delivery Date” means August 15, 2007, unless extended pursuant to the Indenture. If the Initial Construction Loan Certificate is not delivered to the Trustee or its nominee on or before August 15, 2007 or, if applicable, such date to which delivery has been extended in accordance with the Indenture, the Initial Construction Loan Certificate Delivery Date shall be deemed to be August 15, 2007 or, if applicable, such date to which delivery has been extended.

“Initial Endorsement” means the initial endorsement of the Mortgage Note by FHA for FHA Insurance.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Agreement” means the Investment Agreement, effective as of the Closing Date, between the Trustee, at the written direction of the Borrower, and the Investment Agreement Provider providing for investment of money in one or more Funds, and any substitute agreement for the investment of such money, having substantially the same terms, with or guaranteed by an entity the unsecured long-term debt obligations of which are rated by the Rating Agency at least “A1/P-1” or “Aa3” and, upon a downgrading of such rating will provide collateral at a level required by the Rating Agency to maintain a rating of “Aaa” on the Bonds or remit such investment to the Trustee and as to which the Trustee has received the confirmation from the Rating Agency required by the Indenture.

“Investment Agreement Provider” means Calyon, acting through its New York Branch, a foreign banking corporation.

“Investment Proceeds” is defined in Section 1.148-1(b) of the Regulations and generally consists of any amounts actually or constructively received from investing Proceeds.

“Investor Limited Partner” Red Capital Tax Credit Fund XVII, LLC, an Ohio limited liability company, and its successors and assigns.

“Issuer” means Texas Department of Housing and Community Affairs, a public and official agency of the State, together with its successors and assigns.

“Issuer Administration Fee” means the fee payable annually in arrears to the Issuer on each July 20 in the amount of .10% per annum of the aggregate principal amount of the Bonds Outstanding at the inception of each payment period; provided that, on the Closing Date, the Borrower will pay the Issuer Administration Fee to the Issuer for the period from the Closing Date to July 20, 2009; and provided further that the Trustee will remit to the Issuer, from funds provided by the Borrower, all payments of the Issuer Administration Fee due on or after July 20, 2010.

“Issuer Compliance Fee” means the fee payable annually in advance to the Issuer on each June 1, commencing June 1, 2008, in the amount of \$40 per unit in the Development per year (to be increased annually based on any corresponding increase in the Consumer Price Index; provided that, on the Closing Date, the Borrower will pay the Issuer Compliance Fee to the Issuer for the period from June 1, 2008 to May 31, 2009; and provided further that the Trustee will remit to the Issuer, from the funds provided by the Borrower, all payments of the Issuer Compliance Fee due on or after June 1, 2009.

“Issuer Fees” means, collectively, the Issuer Administration Fee and the Issuer Compliance Fee.

“*Lender*” means Keycorp Real Estate Capital Markets, Inc., an Ohio corporation, or its successors and assigns or, if any such entity loses its status as an FHA approved mortgagee, any other mortgagee approved by FHA, and their respective successors or assigns.

“*Lender Commitment*” means the commitment letter relating to the Mortgage Loan from the Lender to the Borrower.

“*Letter of Representations*” means the Blanket Issuer Letter of Representations provided by the Issuer to DTC.

“*Loan*” means the loan of the proceeds of the Bonds made to the Borrower pursuant to the Loan Agreement.

“*Loan Agreement*” means the Loan Agreement dated as of June 1, 2007, among the Issuer, the Borrower, the Trustee and the Lender, and any amendments thereto.

“*Low-Income Tenant*” means a tenant whose Annual Income is 60% or less of Median Gross Income for the Area, as determined under Section 142(d)(2)(B) of the Code. If all the occupants of a Unit are students (as defined under Section 151(c) of the Code), no one of whom is entitled to file a joint return under Section 6013 of the Code, such occupants will not qualify as Low-Income Tenants. The determination of a tenant’s status as a Low-Income Tenant will be made by the Borrower upon initial occupancy of a Unit by such tenant, and annually thereafter, on the basis of a Tenant Income Certification executed by each tenant; provided, however that once a tenant qualifies as a Low-Income Tenant, such tenant will continue to qualify annually upon recertification except as provided in the Regulatory Agreement.

“*Maturity Date*” means the final maturity date of the Bonds, being January 20, 2047.

“*Median Gross Income for the Area*” means, with respect to the Development, the median income for the households in the area which includes the standard metropolitan statistical area in which the Development is located, as determined from time to time by the Secretary of HUD, under Section 8 of the Housing Act (or if such program is terminated, median income determined under the program in effect immediately before such termination), in each case as adjusted for family size.

“*Mortgage*” means the Deed of Trust under which the Borrower is grantor and the Lender is beneficiary, and any amendments thereto.

“*Mortgage Loan*” means the loan from the Lender to the Borrower evidenced by the Mortgage Note and secured by the Mortgage.

“*Mortgage Loan Documents*” means the Mortgage, Mortgage Note, HUD Regulatory Agreement and all other documents required by the Lender and/or HUD in connection with the Mortgage Loan.

“*Mortgage Note*” means the Deed of Trust Note (Multifamily) of the Borrower payable to the order of the Lender in the principal amount of \$16,860,000 and any riders thereto or amendments thereof.

“*National Housing Act*” means the National Housing Act (12 U.S.C. §1701), as amended, and the applicable regulations thereunder.

“*Nonpurpose Investments*” means any “investment property,” within the meaning of Section 148(b) of the Code, that is not a purpose investment to carry out the governmental purpose of the Series 2007A Bonds.

“*Opinion*” means a written opinion of any attorney or firm of attorneys acceptable to the Trustee, who may be counsel to but shall not be a full time employee of the Issuer, the Borrower or the Trustee.

“*Outstanding*”, as applied to the Bonds, means, as of the applicable date, all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except the following:

(a) Bonds canceled upon surrender, exchange or transfer, or canceled because of payment or redemption, on or prior to such date;

(b) Bonds deemed paid pursuant to the defeasance provisions of the Indenture; and

(c) Bonds in lieu of which others have been executed and authenticated under provisions of the Indenture relating to mutilated, lost, stolen or destroyed Bonds and partial redemptions;

provided that Bonds that are owned by the Issuer, the Borrower or any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or the Borrower shall be deemed not to be Outstanding for purposes of determining whether the Owners of the requisite percentage of Bonds have concurred in any demand, direction, request, notice, consent, waiver or other action under the Indenture, except that for purposes of determining whether the Trustee shall be protected in relying on any such concurrence of Owners, only Bonds known by the Trustee to be so owned shall be deemed not to be Outstanding. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for such purposes, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or the Borrower. In case of a dispute as to such right, the Trustee shall be fully protected in relying on an Opinion of counsel. At the time of any such determination, the Issuer shall furnish the Trustee a certificate of an Authorized Representative of the Issuer, upon which the Trustee may rely, describing all Bonds held by the Issuer so to be excluded.

"Payment Date" means the 20th day of each January and July commencing January 20, 2008. In the case of payment of defaulted interest, *"Payment Date"* also means the date of such payment established pursuant to the Indenture.

"Permitted Investments" means, to the extent permitted by law, any of the following:

(a) Government Obligations;

(b) Federal Housing Administration's debentures;

(c) Federal Home Loan Mortgage Corporation's participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts), which guarantee full and timely payment of principal and interest and senior debt obligations;

(d) Farm Credit Banks' (Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system wide bonds and notes;

(e) Federal Home Loan Banks' consolidated debt obligations;

(f) Federal National Mortgage Association's mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) and senior debt obligations;

(g) Resolution Funding Corp.'s debt obligations;

(h) certificates of deposit, time deposits and bankers' acceptances (having original maturities of not more than 90 days) of any bank (including the Trustee or any affiliate of the Trustee), the unsecured short term obligations of which are rated "P-1" by the Rating Agency;

(i) deposits that are fully insured by the Federal Deposit Insurance Corp. with a banking institution rated "P-1" by the Rating Agency;

(j) debt obligations rated "Aaa" by the Rating Agency (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(k) commercial paper (having original maturities of not more than 90 days) rated "P-1" by the Rating Agency;

(l) repurchase agreements with any institution the unsecured, uninsured and unguaranteed debt obligations of which are rated “Aa3/P-1” by the Rating Agency if the term is greater than three months or “P-1” if the term is three months or less, or commercial paper of which is rated “P-1” by the Rating Agency;

(m) the Investment Agreement; and

(n) money market mutual funds rated “Aaa” by the Rating Agency, including the Wells Fargo 100% Treasury Fund or other portfolio of such funds managed by the Trustee or an affiliate of the Trustee.

“*Person*” means any individual, entity, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“*Persons with Special Needs*” means persons who (i) are considered to be individuals having a disability under State or federal law, (ii) are elderly, meaning 60 years of age or more, (iii) are designated by the governing board of the Issuer as experiencing a unique need for decent, safe housing that is not being met adequately by private enterprise, or (iv) are legally responsible for caring for an individual described by clauses (i), (ii) or (iii) above and meet the income guidelines established by the governing board of the Issuer.

“*Principal Office*” means the corporate trust office of the Trustee situated in the city in which the Trustee is described as being located or such other corporate trust office designated by the Trustee as its Principal Office for purposes of the Indenture. The Principal Office of the initial Trustee shall be the address designated in the Indenture.

“*Proceeds*” is defined in Section 1.148-1(b) of the Regulations and generally means any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2007A Bonds.

“*Project Costs*” means, to the extent authorized by the Act, any and all costs incurred by the Borrower with respect to the acquisition, construction and equipping, as the case may be, of the Development, whether paid or incurred prior to or after the date of the Regulatory Agreement, including, without limitation, the value of the land and buildings on the land; costs for site preparation, demolition, and development; costs and fees paid for the planning, execution, and financing of the Development, including, without limitation, Costs of Issuance with respect to each series of Bonds; other expenses reasonable and necessary to determine the feasibility of the Development; contractors and Borrower’s overhead and supervisor’s fees and costs directly allocable to the Development; and administrative and other expenses reasonable and necessary to the Development and the financing thereof.

“*Project Loan Certificate*” means the Ginnie Mae Certificate issued after the Mortgage Loan is finally endorsed for FHA Insurance which may be either a Ginnie Mae permanent security with a “PN” or “PLC” designation.

“*Qualified Project Costs*” means the Project Costs incurred no earlier than 60 days prior to the Inducement Date (or which are qualifying preliminary expenditures, as defined in Section 1.150-2(f)(2) of the Regulations) and no earlier than three years prior to the date reimbursed with Proceeds, but in no event shall such costs have been incurred with respect to a portion of the Development that is placed in service, within the meaning of Section 1.150-2 of the Regulations, earlier than 18 months prior to the date the related costs are reimbursed with Proceeds; provided that such costs are chargeable to a capital account with respect to the Development for federal income tax and financial accounting purposes, or would be so chargeable either with a proper election by the Borrower or but for the proper election by the Borrower to deduct those amounts; provided, however, that, only such portion of the interest accrued on the Series 2007A Bonds during, and fees for a “qualified guarantee” (within the meaning of Section 1.148-4 of the Regulations) attributable to the period of, the construction of the Development shall constitute Qualified Project Costs as bear the same ratio to all such interest or fees, as applicable, as the Qualified Project Costs bear to all Project Costs; and provided, however, that, if any portion of the Development is being constructed by the Borrower or a Related Person (whether as a general contractor

or a subcontractor), “Qualified Project Costs” shall include only (a) the actual out-of-pocket costs incurred by the Borrower or such Related Person in constructing the Development (or any portion thereof), (b) any reasonable fees for supervisory services actually rendered by the Borrower or such Related Person (but excluding any profit component) and (c) any overhead expenses incurred by the Borrower or such Related Person that are directly attributable to the work performed on the Development and shall not include, for example, intercompany profits resulting from members of an affiliated group (within the meaning of Section 1504 of the Code) participating in the construction of the Development or payments received by such Related Person due to early completion of the Development (or any portion thereof). Qualified Project Costs do not include Costs of Issuance.

“*Qualified Project Period*” means, with respect to the Development, the period beginning on the first day on which 10% of the Units are occupied and ending on the latest of (i) the date that is 15 years after the date on which 50% of the Units in the Development are occupied, (ii) the first date on which no tax-exempt private activity bond issued with respect to the Development is outstanding for federal income tax purposes, or (iii) the date on which any assistance provided with respect to the Development under Section 8 of the Housing Act terminates.

“*Rating Agency*” means Moody’s Investors Service, Inc. and its successors and assigns.

“*Reasonably Required Reserve or Replacement Fund*” means any fund described in Section 148(d) of the Code provided that the amount thereof allocable to the Series 2007A Bonds invested at a Yield materially higher than the Yield on the Series 2007A Bonds does not exceed at any time the least of (a) 10% of the stated principal amount of the Series 2007A Bonds (or Sale Proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of the Series 2007A Bonds), (b) the maximum annual principal and interest requirements of the Series 2007A Bonds, or (c) 125% of average annual principal and interest requirements of the Series 2007A Bonds, within the meaning of Section 148(d) of the Code.

“*Rebate Amount*” has the meaning ascribed in Section 1.148-3(b) of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments all as determined in accordance with Section 1.148-3 of the Regulations. In the case of any Temporary Period Issue, the “Rebate Amount” as of any Computation Date shall be limited to the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund.

“*Rebate Fund*” means the Rebate Fund established pursuant to the Indenture.

“*Regulations*” means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code, or to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“*Regulatory Agreement*” means the Regulatory and Land Use Restriction Agreement dated as of June 1, 2007, among the Borrower, the Issuer and the Trustee, together with any amendments and supplements thereto permitted thereby.

“*Related Person*” has the meaning set forth in Section 144(a)(3) of the Code, and generally means a partner of the Borrower, a person whose relationship with the Borrower would result in a disallowance of losses under Section 267 or 707(b) of the Code or a person who, together with the Borrower, is a member of the same controlled group of corporations (as defined in Section 1563(a) of the Code, except that “more than 50 percent” shall be substituted for “at least 80 percent” each place it appears therein).

“*Replacement Proceeds*” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“*Sale Proceeds*” is defined in Section 1.148-1(b) of the Regulations and generally consists of any amounts actually or constructively received from the sale (or other disposition) of any Series 2007A Bond, including amounts used to pay underwriters’ discount or compensation and accrued interest other than pre-issuance accrued interest. Sale Proceeds also include amounts derived from the sale of a right

that is associated with any Series 2007A Bond and that is described in Section 1.148-4(b)(4) of the Regulations.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4191; Midwest Securities Trust Company, Capital Structures - Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax (312) 663-2343; Pacific Securities Depository Trust Company, Pacific and Company, P.O. Box 7041, San Francisco, California 94120, Fax (415) 393-4128; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax (215) 496-5058; or, in accordance with the then current guidelines of the Securities and Exchange Commission to such other addresses and/or such other securities depositories or, as the Issuer may designate in a request of the Issuer delivered to the Trustee, to no such depositories.

“Series” means any series of Bonds issued pursuant to this Indenture.

“Series 2007A Bonds” means the Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan—Villas at Mesquite Creek) Series 2007A in the original aggregate principal amount of \$15,000,000.

“Series 2007B Bonds” means the Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan—Villas at Mesquite Creek) Taxable Series 2007B in the original aggregate principal amount of \$1,860,000.

“Sinking Fund Redemption Date” means each January 20 and July 20 in each of the years specified in “THE BONDS — Redemption — Mandatory Sinking Fund Redemption.”

“Sinking Fund Redemption Requirements” means the aggregate principal amount of the Bonds required to be redeemed on each Sinking Fund Redemption Date specified in “THE BONDS — Redemption — Mandatory Sinking Fund Redemption.”

“Special Mandatory Redemption Account” means the Special Mandatory Redemption Account established in the Bond Fund.

“State” means the State of Texas.

“State Restrictive Period” means, with respect to the Development, the period beginning on the first day on which the Borrower takes legal possession of the Development and at least 10% of the Units are available for occupancy and ending on the latest of (i) the date that is 30 years after the first day of the State Restrictive Period, (ii) the first date on which no tax-exempt private activity bond issued with respect to the Development is outstanding for federal income tax purposes, or (iii) the date on which any assistance provided with respect to the Development under Section 8 of the Housing Act terminates.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Issuer and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Surplus Cash” has the meaning specified in the HUD Regulatory Agreement.

“Temporary Period Issue” means any issue of bonds that meets either the six-month exception or the 18-month exception set forth in Section 1.148-7 of the Regulations.

“Tenant Income Certification” means a certification as to income and other matters executed by the household members of each tenant in the Development, in such form as available on the Issuer’s website at the time of such execution by the tenant, in satisfaction of the criteria prescribed by the Secretary of HUD under Section 8(f)(3) of the Housing Act for purposes of determining whether a family is a lower-income family within the meaning of Section 8(f)(1) of the Housing Act and regulations and in accordance with the terms of the Regulatory Agreement.

“Transferred Proceeds” means with respect to any portion of the Series 2007A Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of Section 1.148-9 of the Regulations.

“Treasury Regulations” means the Regulations.

“Trust Estate” means the trust estate pledged by the Issuer and described in the Granting Clauses of the Indenture.

“Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America or its successor, as Trustee under the Indenture.

“Trustee Fees” means the amount payable by the Borrower to the Trustee pursuant to the Loan Agreement for its ordinary services under the Indenture, in an amount equal to 0.03% of the aggregate principal amount of Bonds outstanding per annum, payable in advance in semiannual installments on January 20 and July 20, commencing July 20, 2008.

“Unassigned Issuer Rights” means (a) all of the Issuer’s right, title and interest in and to all reimbursement and indemnification rights of the Issuer, (b) all rights of the Issuer to receive the Issuer Fees and to collect the Asset Oversight Agent’s Fee, (c) the right to receive notices and to make any determination and to grant any approval or consent to anything in the Financing Documents requiring the determination, consent or approval of the Issuer, (d) all rights of the Issuer to enforce the representations, warranties, covenants and agreements of the Borrower set forth in the Borrower’s Tax Certificate and in the Regulatory Agreement, (e) any and all rights, remedies and limitations of liability of the Issuer set forth in the Financing Documents regarding (1) the negotiability, registration and transfer of the Bonds, (2) the loss or destruction of the Bonds, (3) the limited liability of the Issuer as provided in the Act and in the Financing Documents, (4) the maintenance of insurance by the Borrower, (5) no liability of the Issuer to third parties, and (6) no warranties of suitability or merchantability by the Issuer, (f) all rights of the Issuer in connection with any amendment to or modification of the Financing Documents, and (g) any and all rights required for the Issuer to comply with Section 2306.186 of the Act.

“Underwriter” means Citigroup Global Markets Inc.

“Unit” means a residential accommodation containing separate and complete facilities for living, sleeping, eating, cooking and sanitation located within the Development.

“Yield” means yield as determined in accordance with Section 148(h) of the Code, and generally, is the discount rate which when used in computing the present value of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary, which does not purport to be comprehensive or definitive, of certain provisions of the Indenture, which is qualified in its entirety by reference to the Indenture.

Establishment of Funds for the Bonds

The following Funds and accounts therein will be established and maintained by the Trustee under the Indenture:

- (a) Bond Fund (and the Special Mandatory Redemption Account therein);
- (b) Costs of Issuance Fund;
- (c) Acquisition Fund (and the Capitalized Interest Account therein);
- (d) Rebate Fund; and
- (e) Expense Fund.

Deposits into Acquisition Fund

The Trustee will deposit when and as received:

- (a) in the Acquisition Fund, \$16,860,000 from the proceeds of the Bonds; and
- (b) in the Capitalized Interest Account of the Acquisition Fund, \$70,000 from moneys paid by the Underwriter, but not from proceeds of the Bonds, to pay interest on the Bonds, to pay accrued interest on the purchased Ginnie Mae Certificates or, with the approval of the Rating Agency, to pay costs incurred with obtaining an extension of the Delivery Date. In no event will proceeds of the Bonds be deposited into the Capitalized Interest Account.

Upon acquisition thereof, the Initial Construction Loan Certificate and all other Construction Loan Certificates will be registered in the name of the Trustee or its nominee in and for the benefit of the Acquisition Fund. See "ESTIMATED SOURCES AND USES OF BOND PROCEEDS."

Disbursements and Transfers from Acquisition Fund

Capitalized Interest Account. The Trustee will on each Payment Date occurring prior to the purchase of the Project Loan Certificate by the Trustee transfer from the Capitalized Interest Account and deposit in the Bond Fund an amount which, together with money held in the Bond Fund (exclusive of money in the Special Mandatory Redemption Account, except to the extent such funds are to be used for the extraordinary mandatory redemption of Bonds), is equal to the interest on the Bonds due on such Payment Date; however, amounts transferred from the Capitalized Interest Account will not be used to pay any principal of the Bonds. In addition, the Trustee will disburse moneys from the Capitalized Interest Account in accordance with the provisions of the Indenture.

Initial Construction Loan Certificate Advance. The Trustee will disburse to the Lender (a) from the Acquisition Fund, an amount equal to the principal amount of the Initial Construction Loan Certificate and (b) from the Capitalized Interest Account, accrued interest on the Initial Construction Loan Certificate from and including the first day of the month in which the Initial Construction Loan Certificate is delivered to the Trustee or its nominee to, but not including, the date the Initial Construction Loan Certificate is delivered to the Trustee or its nominee, but only upon receipt by the Trustee or its nominee of the Initial Construction Loan Certificate bearing interest at the pass-through rate of 5.17% per annum and maturing on or after the Delivery Date, but not later than March 15, 2011, unless the Trustee receives a written confirmation of the existing rating on the Bonds from the Rating Agency.

The Trustee will transfer all money in the Acquisition Fund and the Capitalized Interest Account therein to the Bond Fund for mandatory redemption of the Bonds if the Initial Construction Loan Certificate is not delivered to the Trustee on or before the Initial Construction Loan Certificate Delivery Date; however, such transfer will be delayed if the Initial Construction Loan Certificate Delivery Date is extended as described under "Initial Construction Loan Certificate Delivery Date" below.

Interim Construction Loan Certificates. Following the delivery to the Trustee or its nominee of the Initial Construction Loan Certificate, the Trustee will from time to time disburse to the Lender (a) from the Acquisition Fund, an amount equal to the principal amount of any interim Construction Loan Certificate and (b) from the Capitalized Interest Account, accrued interest thereon from and including the first day of the month in which the Construction Loan Certificate is delivered to, but not including, the date the Construction Loan Certificate is delivered to the Trustee or its nominee, provided that the pass-through rate of all Construction Loan Certificates held by the Trustee or its nominee is 5.17% per annum and the maturity date of all Construction Loan Certificates is March 15, 2011.

Project Loan Certificate. The Trustee will disburse to the Lender (a) from the Acquisition Fund, an amount equal to the principal amount of the Project Loan Certificate minus the aggregate principal amount of all Construction Loan Certificates previously delivered to the Trustee or its nominee, and (b) from the Capitalized Interest Account, accrued interest thereon from and including the first day of the month in which the Project Loan Certificate is delivered to, but not including, the date the Project Loan Certificate is delivered to the Trustee or its nominee, but only upon receipt by the Trustee or its nominee of the Project Loan Certificate bearing interest at the pass-through rate of 5.17% per annum maturing January 15, 2047 (or such later date as the Trustee receives a written confirmation of the existing rating on the Bonds from the Rating Agency) with prepayment provisions which correspond to the applicable redemption provisions set forth in the Indenture.

The Trustee will deliver to the Lender all Construction Loan Certificates held by it or its nominee for delivery to Ginnie Mae in exchange for the Project Loan Certificate; however, the Construction Loan Certificates will not be so released if the principal amount of the Mortgage Note as finally endorsed is less than the aggregate principal amount of such Construction Loan Certificates unless the Lender has paid to the Trustee or its nominee an amount equal to such difference as a partial redemption of such Construction Loan Certificates. Any amounts so received will be deposited in the Special Mandatory Redemption Account in the Bond Fund and applied to the redemption of Bonds as described in clause (b) under the caption, "THE BONDS — Redemption — Extraordinary Mandatory Redemption."

The Trustee will transfer money from the Acquisition Fund in an amount that is equal to the difference between the aggregate principal amount of the Bonds then Outstanding and the principal amount of all Construction Loan Certificates to the Special Mandatory Redemption Account in the Bond Fund if the Project Loan Certificate is not delivered to the Trustee or its nominee on or before the Delivery Date; however, such transfer will be delayed one or more times but not to a date later than the maturity date of the Construction Loan Certificates (as such date may be extended with the consent of the Rating Agency, the Lender and, if required, Ginnie Mae) if the Trustee has received a timely request from the Borrower or the Lender for such delay accompanied by (a) a cash flow projection demonstrating that the sum of (i) the amounts in the Acquisition Fund and the Bond Fund, (ii) the investment earnings to accrue on the amounts held in the Acquisition Fund and/or the Bond Fund plus payments on any Construction Loan Certificates held by the Trustee scheduled to be received by the Trustee after the extended Delivery Date and prior to the Payment Date following the extended Delivery Date, (iii) any payments on the Project Loan Certificate scheduled to be received by the Trustee after the extended Delivery Date and prior to the Payment Date following the extended Delivery Date, assuming it is dated not earlier than the latest date on which it may be delivered to the Trustee pursuant to such extension request, and (iv) any additional sums paid to the Trustee by or on behalf of the Borrower or the Lender for deposit into the Acquisition Fund (either in the form of a letter of credit or money constituting Available Money) will be at least equal to the debt service on the Bonds through the date which is 15 days after the

end of any such extension period (including the redemption price of the Bonds, at par, and excluding any premium thereon) plus the accrued and unpaid Trustee Fees and the Issuer Administration Fee, calculated through the date that is 15 days after the Delivery Date, and (b) arrangements satisfactory to the Trustee for the making of the investments contemplated by the cash flow projection. The Trustee will consent to the extension of the Delivery Date to a date not later than the maturity date of the Construction Loan Certificates held by it, as that maturity date may be extended from time to time, and will consent to the extension of the maturity date of the Construction Loan Certificates to the last date on which the Project Loan Certificate may be delivered pursuant to any extension of the Delivery Date. In the event that the Project Loan Certificate has not been delivered to the Trustee on or before the Delivery Date (as the same may be extended), the Trustee will consent to one or more further extensions of the maturity date of the Construction Loan Certificates. Notwithstanding the foregoing, the Trustee will consent to the extension of the Delivery Date or the maturity date of the Construction Loan Certificates only upon receipt of written confirmation of the rating then outstanding on the Bonds from the Rating Agency and the Rating Agency's approval of the applicable cash flow projection meeting the requirements of the Indenture described above.

At the written direction of the Borrower or the Lender, provided that such cash flow projection prepared in connection with such extension took into account the payment of such costs, notwithstanding contrary instruction from the other, the Trustee will apply moneys in the Capitalized Interest Account to pay any costs incurred with obtaining an extension of the Delivery Date or the maturity date of the Construction Loan Certificates pursuant to the Indenture.

Upon delivery of the Project Loan Certificate to the Trustee, but in no event later than the third anniversary of the Closing Date (as such date may be extended upon receipt of a written Opinion of Bond Counsel to the effect that such extension will not cause interest on the Series 2007A Bonds to become subject to federal income taxation) the Trustee will apply any amount remaining in the Acquisition Fund (including the Capitalized Interest Account therein) in the following order of priority:

(a) first, deposit in the Bond Fund an amount such that the amount on deposit in the Bond Fund will be equal to the difference between (i) the sum of (A) \$34,154 (or such greater or lesser amount in the event the Delivery Date is extended as permitted by the Rating Agency, as evidenced by receipt of confirmation of the then outstanding rating on the Bonds), (B) the principal of and interest required to be paid on the Bonds on or before the next Payment Date, including any accrued but unpaid amounts, and (C) the Trustee Fees and the Issuer Administration Fee required to be paid on or before the next Payment Date, including any accrued but unpaid amounts, and (ii) the sum of payments of principal and interest scheduled to be paid on the Project Loan Certificate on or before the next Payment Date and scheduled interest earnings under the Investment Agreement;

(b) second, if the amount of the Project Loan Certificate as delivered to the Trustee is less than the aggregate principal amount of the Bonds then Outstanding, transfer to the Special Mandatory Redemption Account an amount equal to the excess of the aggregate principal amount of the Bonds then Outstanding over the amount of the Project Loan Certificate as delivered to the Trustee;

(c) third, to the Lender, to the extent not previously paid, an amount equal to (i) all amounts provided by the Lender to effect any extension of the Delivery Date, the Initial Construction Loan Certificate Delivery Date and/or the maturity date of the Construction Loan Certificates, as set forth in a certificate of the Lender, plus (ii) all costs incurred by the Lender in effecting the issuance of any of the Ginnie Mae Certificates in certificated form, as set forth in a certificate of the Lender;

(d) fourth, to the Underwriter, its counsel or the Rating Agency, an amount equal to any costs incurred in connection with obtaining an extension of the Delivery Date, the Initial Construction Loan Certificate Delivery Date and/or an extension of the maturity date of the Construction Loan Certificates; and

(e) fifth, to the Borrower to pay additional "development costs," as defined in the Act and relating to the Development, upon receipt of a certification from the Borrower that the Borrower is in compliance with the provisions of the Loan Agreement.

Initial Construction Loan Certificate Delivery Date. The Initial Construction Loan Certificate Delivery Date may be extended one or more times if the Trustee will have received a timely request from the Borrower or the Lender for such delay accompanied by: (a) a cash flow projection demonstrating that the sum of (i) the amounts in the Acquisition Fund and the Bond Fund, (ii) the investment earnings to accrue on the amounts held in the Acquisition Fund and/or the Bond Fund plus payments on any Construction Loan Certificates held by the Trustee during the period ending 15 days after the end of any period of delay requested and (iii) any additional sums paid to the Trustee by or on behalf of the Borrower or the Lender for deposit into the Acquisition Fund (either in the form of a letter of credit or accompanied by an unqualified opinion of nationally recognized bankruptcy counsel to the effect that such sums are not subject to the provisions of Sections 362(a) and 547 of the Federal Bankruptcy Code) will be at least equal to the debt service on the Bonds through the date which is 15 days after the end of any such extension period (including the redemption price of the Bonds, at par and excluding any premium thereon) plus accrued and unpaid Trustee's Fees and the Issuer Administration Fee, calculated through the date that is fifteen days after the Initial Construction Loan Certificate Delivery Date. The Trustee will consent to the extension of the Initial Construction Loan Certificate Delivery Date only upon receipt of written confirmation of the rating then outstanding on the Bonds from the Rating Agency.

Bond Fund

Deposits into the Bond Fund. The Trustee will deposit in the Bond Fund when and as received:

- (a) amounts, if any, paid by the Underwriter as accrued interest on the Bonds;
- (b) all income, revenues, proceeds and other amounts received from or in connection with the Project Loan Certificate and the Construction Loan Certificates; however, any amounts received by the Trustee prior to the date on which the Trustee acquires the Project Loan Certificate which, to the actual knowledge of the Trustee, represent principal amortization payments on the Mortgage Note, will be returned to the Lender unless such payment by the Lender was required by the applicable rules of Ginnie Mae or FHA;
- (c) all earnings and gains from the investment of money held in the Bond Fund and the Acquisition Fund,
- (d) all amounts transferred to the Bond Fund from the Acquisition Fund as described below; and
- (e) amounts paid by the Borrower pursuant to the Loan Agreement for deposit into a segregated account of the Bond Fund, additional security or any other amounts received by the Trustee which are subject to the lien and pledge of the Indenture for the benefit of the Owners.

Use of Money in Bond Fund. All amounts in the Bond Fund, other than those in the Special Mandatory Redemption Account, will be used by the Trustee in the following priority:

- (a) on each Payment Date, for payment of principal of and premium, if any, and interest on the Bonds due on such Payment Date, and on each date on which Bonds are to be redeemed (other than pursuant to extraordinary mandatory redemption) for payment of the redemption price of such Bonds; provided that the earnings and gains from the investment of proceeds of the Series 2007A Bonds shall only be used for the payment of, premium, if any, and interest on the Series 2007A Bonds;
- (b) on each Payment Date, for transfer to the Expense Fund for payment of the Trustee Fees, provided that the amount applied to the payment of Trustee Fees on any Payment Date shall not exceed one-half of the annual amount of such Trustee Fees; and

(c) on each July 20, commencing July 20, 2010, transfer to the Expense Fund for payment of the Issuer Administration Fee.

Special Mandatory Redemption Account. Amounts transferred to the Bond Fund from the Acquisition Fund pursuant to the Indenture or attributable to the receipt by the Trustee of payments under the Ginnie Mae Certificates exceeding regularly scheduled payments of principal and interest will be deposited in the Special Mandatory Redemption Account and used by the Trustee solely to redeem Bonds pursuant to the extraordinary mandatory redemption provisions of the Indenture. See “THE BONDS – Redemption – Extraordinary Mandatory Redemption.”

Costs of Issuance Fund

The Trustee will deposit in the Costs of Issuance Fund, moneys from the Borrower for the purpose of paying Costs of Issuance of the Bonds and related costs. See “ESTIMATED SOURCES AND USES OF BOND PROCEEDS.” In no event will proceeds of the Bonds be deposited into the Costs of Issuance Fund.

Any amounts deposited in the Costs of Issuance Fund will be used on or after the Closing Date to pay Costs of Issuance of the Bonds. Any money remaining in the Costs of Issuance Fund 90 days following the Closing Date will be transferred to the Borrower.

Rebate Fund

The Rebate Fund is to be separate from any other Fund established and maintained under the Indenture or under any laws governing the creation and use of funds by the Issuer. There are to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture. Money deposited in the Rebate Fund is to be held by the Trustee in trust for payment to the federal government of the United States of America, and neither the Issuer nor the Borrower nor the holder of any Bonds has any rights in or claim to such money.

Expense Fund

Deposits into Expense Fund. The Expense Fund will be separate from any other Fund established and maintained under the Indenture. The Trustee will deposit into the Expense Fund only the amounts (a) transferred thereto pursuant to the Indenture and (b) paid by the Borrower pursuant to clause (d)(ii) and clause (h) in the second paragraph under the caption Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Amounts Payable.” In no event will the Trustee use any amounts representing payments on the Ginnie Mae Certificates to pay the Issuer Compliance Fee or the Asset Oversight Agent’s Fee.

Use of Money in Expense Fund. All amounts in the Expense Fund will be disbursed by the Trustee as follows:

- (a) on each June 1, commencing June 1, 2009, for payment of the Issuer Compliance Fee;
- (b) on each June 1 and December 1, commencing December 1, 2008, for payment of the Asset Oversight Agent’s Fee;
- (c) on each Payment Date, commencing July 20, 2008, for payment of the Trustee Fees, provided that the amount applied to the payment of Trustee Fees on any Payment Date shall not exceed one-half of the annual amount of such Trustee Fees; and
- (d) on each July 20, commencing July 20, 2010, for payment of the Issuer Administration Fee.

To the extent that sufficient funds are not available to pay the expenses set forth above, the Trustee will not use any other funds held under the Indenture to pay such expenses.

Permitted Investments

The Trustee will invest and reinvest any moneys held in the Bond Fund and the Acquisition Fund in Permitted Investments.

Disposition of Balance in Funds

Except as otherwise specifically provided in the Indenture, any money held in any of the Funds created by the Indenture following payment in full of the Bonds or provision for their payment as provided therein will be used to pay the Trustee Fees and expenses as provided in the Indenture, the Issuer Fees and the Asset Oversight Agent's Fee, and to reimburse the Issuer for any costs incurred by it in connection with the Development or otherwise as provided in the Loan Agreement and, to the extent not so used, will be paid to the Borrower.

No Disposition of Ginnie Mae Certificates

Without the consent of the Owners of 100% of the Bonds, neither the Issuer nor the Trustee will sell or otherwise dispose of the Ginnie Mae Certificates (other than delivery of the Ginnie Mae Certificates to the Lender in accordance with its terms) after its acquisition for an amount less than an amount sufficient, together with other amounts then held under the Indenture and available for the payment of the Bonds, to defease the Bonds in accordance with the Indenture on the first date following such sale on which the Bonds may be redeemed as set forth under paragraph (a) under "THE BONDS — Redemption — Optional Redemption."

Continuing Disclosure

Pursuant to the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements under Securities and Exchange Commission Rule 15c2-12 and the Issuer will have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. The Trustee has covenanted and agreed that it will comply with and carry out all provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture to the contrary, failure of the Trustee to comply with the Continuing Disclosure Agreement will not be considered an Event of Default under the Indenture; however, the Trustee will, subject to the provisions of the Indenture, at the request of the Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds (upon receipt of satisfactory indemnification), or any Bondholder or Beneficial Owner (as defined in the Continuing Disclosure Agreement) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower or the Trustee, as the case may be, to comply with its obligations pursuant to the foregoing requirements. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENT."

Events of Default; Acceleration; Remedies

The following events will be Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal of, premium, if any, or interest on any Bond when and as the same will become due and payable, whether at maturity as expressed therein, by proceedings for redemption (except as otherwise provided under "THE BONDS — Redemption — Notice of Redemption"), by acceleration, or otherwise; or

(b) default in the performance or observance of any other of the covenants, promises, stipulations, agreements or conditions on the part of the Issuer contained in the Indenture or in the Bonds and failure to remedy the same after notice thereof pursuant to the Indenture.

A default under the Mortgage Loan Documents will not constitute a default under the Indenture, and vice versa. Notwithstanding the occurrence of any Event of Default under the Indenture or under the Loan Agreement or an event of default under the Regulatory Agreement, the Trustee will continue to purchase the Ginnie Mae Certificates from the Lender, provided that said Ginnie Mae Certificates are delivered to the Trustee not later than the maturity date of the Construction Loan Certificates, as the same

may be extended pursuant to the Indenture and the funds on deposit in the Acquisition Fund and the Bond Fund remain available for such purpose.

If an Event of Default described in paragraph (a) above occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and will, if requested by the Owners of 25% of the aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Issuer, the Lender and the Borrower, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, but only from the revenues and receipts specifically pledged in the Indenture for such purpose, including, without limitation, amounts paid pursuant to the Ginnie Mae Certificates and amounts on deposit in the Bond Fund and accounts therein.

If an Event of Default described in paragraph (b) above occurs at any time after delivery of the Project Loan Certificate, then, and in each and every such case during the continuance of such Event of Default, the Trustee will, if requested by the Owners of 100% of the aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Issuer, the Lender and the Borrower, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, but only from the revenues and receipts specifically pledged in the Indenture for such purpose, including, without limitation, amounts paid pursuant to the Ginnie Mae Certificates and amounts on deposit in the Bond Fund and accounts therein.

The Trustee will give or cause to be given notice of any such declaration of acceleration to the respective Owners of the Bonds at their addresses appearing on the Bond Register. Notice of such declaration of acceleration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds notwithstanding, interest will cease to accrue on such Bonds from and after the date established for payment of the Bonds pursuant to such declaration of acceleration if and to the extent that money to make such payment is on hand with the Trustee and available for such purpose in any of the Funds on that date.

Upon the occurrence and during the continuance of an Event of Default under the Indenture the Trustee may proceed to protect and enforce its rights as the owner of the Ginnie Mae Certificates and the rights of the Owners by mandamus or other action, suit or proceeding at law or in equity for specific performance of any agreement contained in the Indenture; provided, however, that no Event of Default under the Indenture will be deemed to be a default by the Borrower under the Mortgage Note.

Upon the occurrence of an Event of Default under the Indenture, if requested to do so and upon written request by the Owners of the required percentage of the aggregate principal amount of the Bonds then Outstanding and if indemnified as provided in the Indenture, the Trustee will exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, upon being advised by counsel, deems most expedient in the interests of the Owners.

No remedy conferred by the Indenture upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Trustee or to the Owners under the Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default under the Indenture will impair any such right or power or will be construed to be a waiver of any such default or Event of Default under the Indenture or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Owners, will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

Right of Owners to Direct Proceedings

Anything in the Indenture to the contrary notwithstanding but subject to certain provisions in the Indenture, the Owners of a majority in aggregate principal amount of Bonds then Outstanding will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings thereunder; provided, however, that such direction may not be otherwise than in accordance with the provisions of law and of the Indenture and provided, further, that the Owners of the Bonds will look solely to the Trustee for the benefits of the Ginnie Mae Certificates and any payment of any claim on the Ginnie Mae Certificates may be made to the Trustee without any liability or accountability to the Owners to see to the application of the benefits of the Ginnie Mae Certificates.

Supplemental Indentures Not Requiring Consent of Owners

Subject to certain provisions of the Indenture, the Issuer and the Trustee may from time to time and at any time, without the consent of or notice to any of the Owners but upon 30 days' written notice to the Lender, enter into Supplemental Indentures for the following purposes:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture in a manner not adverse to the Owner of any Bond;
- (b) to impose on the Trustee (with its consent) for the benefit of the Owners any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer in the Indenture other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture theretofore in effect;
- (d) to subject to the Indenture additional revenues, properties or collateral;
- (e) to modify, amend or supplement the Indenture in such manner as required to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or state securities ("Blue Sky") law, and, if they so determine, to add to the Indenture such other terms, conditions and provisions as may be required by said Trust Indenture Act of 1939, as amended, or similar federal statute or state securities law;
- (f) to make any change required by the Rating Agency in connection with obtaining and maintaining a rating on the Bonds;
- (g) to authorize different denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;
- (h) to make such changes as are required to provide for the conversion of the Bonds to certificated form;
- (i) to make such changes as are elsewhere expressly permitted by the Indenture;
- (j) to make any other change in the Indenture which will not prejudice in any material respect the rights of the Owners of the Bonds then Outstanding; and
- (k) to make any other changes that will become effective only at the time when no Bonds remain Outstanding and that are not of the nature described in clause (c) above.

Before the Issuer and the Trustee will adopt any such Supplemental Indenture which does not require the consent of the Owners or simultaneously with such adoption, there will be or have been delivered to the Issuer and the Trustee an Opinion of Bond Counsel, stating that such Supplemental Indenture is authorized or permitted by the Indenture and complies with its terms and will, upon the

execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not cause the interest on the Series 2007A Bonds to be included in gross income for federal income tax purposes.

Supplemental Indentures Requiring Consent of Owners

Exclusive of Supplemental Indentures provided for above and subject to the terms and provisions contained in the Indenture, the Owners of two-thirds in aggregate principal amount of the Bonds then Outstanding will have the right from time to time, notwithstanding any other provision of the Indenture, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or indentures supplemental to the Indenture as are deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; *however*, nothing in the Indenture will permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of or premium, if any, on any Bond or the rate of interest thereon, or (c) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any Bonds, or (d) a privilege or priority of any Bond over any other Bond, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indenture, without the consent and approval of the Owners of all of the Bonds then Outstanding, or any change as described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — No Disposition of Ginnie Mae Certificates," without the consent of the Owners of all the Bonds.

If at any time the Issuer requests the Trustee to enter into any Supplemental Indenture for any of the purposes described in the foregoing paragraph, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be sent to the Lender and to each Owner of Bonds then Outstanding by registered or certified mail to the address of such Owner as it appears on the Bond Register; *however*, failure to give such notice, or any defect therein, will not affect the validity of any proceedings pursuant to the Indenture. Such notice, which at the request of the Trustee will be prepared by the Issuer at the Borrower's expense, will briefly set forth the nature of the proposed Supplemental Indenture and will state that copies thereof are on file at the Principal Office of the Trustee for inspection by all Owners. If, within 60 days or such longer period as will be prescribed by the Issuer following the giving of such notice, the Owners of two-thirds in aggregate principal amount of the Bonds then Outstanding will have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing such Supplemental Indenture or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as permitted and provided in the Indenture, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Defeasance of Bonds

Following the Delivery Date, in the event that the Issuer or the Borrower has deposited or caused to be deposited, as trust funds in a special fund with the Trustee (the "Trust Account"), money and/or Government Obligations that are not subject to redemption prior to maturity sufficient in amount, together with known earned income from the investments thereof, but without regard to reinvestment thereof, to pay the principal of and interest on the Bonds or such portion thereof as the same become due and payable and to refund or defease such then Outstanding Bonds and to pay the costs of such refunding or defeasance, and makes irrevocable provisions for redemption of such Bonds, if applicable, then in such case all right and interest of the Owners of the Bonds to be so retired, refunded or defeased (collectively, the "Defeased Bonds") in the covenants of the Indenture, in the Trust Estate, and in the funds and accounts obligated to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon will cease and become void, except that such Owners will have the right to receive payment of the principal of, premium, if any, and interest on the Defeased Bonds from the Trust Account and, in the event the funds in the Trust Account are not available for such payment, will have the

residual right to receive payment of the principal of and premium, if any, and interest on the Defeased Bonds from the Trust Estate (but only if the Indenture has not been discharged as described below) without any priority of lien or charge against the Trust Estate or those covenants with respect thereto except to be paid therefrom (except that such rights as exist with respect to payment, exchange and transfer of such Bonds under the pertinent provisions of the Indenture will continue in full force and effect). In such event, the Borrower will cause an accounting for such period or periods to be prepared by an Accountant as will be requested by the Issuer to be prepared and filed with the Issuer and the Trustee and, upon the request of the Issuer, the Trustee will execute and deliver to the Issuer all such instruments as may be desirable to evidence such discharge and satisfaction. Notwithstanding the foregoing, upon such discharge the provisions of the Indenture relating to the Rebate Fund will continue in effect. The Trustee will, as it deems necessary, provide for the random selection of any Defeased Bonds that constitute less than all of the Bonds, for notice of the defeasance to be given to the Owners of the Defeased Bonds and to such other persons as the Trustee will determine, and for any required replacement of Bond certificates for Defeased Bonds. After the establishment and full funding of such Trust Account, the Defeased Bonds will be deemed to be discharged and the Trustee then may apply any money in any other Fund or account established for the payment or redemption of the Defeased Bonds to such lawful purposes as it may determine, subject only to the rights of the Owners of any other Bonds then Outstanding and the rights of the Issuer and the Trustee under the Indenture. Notwithstanding the foregoing, no Bonds will be defeased unless the Trustee has received written confirmation from the Rating Agency, if any, that such defeasance will not result in a reduction or withdrawal of the rating on the Defeased Bonds.

The Trustee will notify the Issuer and the Lender of the defeasance of any Bonds. The Issuer and the Lender may rely on any notice provided to it by the Trustee pursuant to the Indenture. However, the Trustee may in its discretion request that the Issuer provide to the Trustee, at the expense of the Borrower, (a) an Opinion of Bond Counsel stating that the Defeased Bonds are no longer deemed Outstanding under the Indenture or (b) verification by an accountant or other qualified verification agent acceptable to the Trustee of the conformity of the Trust Account with the provisions of the Indenture.

Discharge of Indenture

The obligations of the Trustee under the Indenture will remain in effect with respect to all Bonds until the principal of, premium, if any, and interest on all Bonds has been paid in full or discharged, notwithstanding that the lien of the Indenture may have been discharged with respect to some of the Bonds pursuant to the above paragraph. Any money held by the Trustee after payment or discharge of principal of, premium, if any, and interest on all of the Bonds and all amounts due to the Trustee under the Indenture will be free from the trust of the Indenture and will promptly thereafter be transferred to the Issuer to the extent certified to the Trustee by the Issuer as amounts owed to the Issuer under the Loan Agreement, and then to the Borrower and the Trustee will be released and discharged with respect thereto.

The Trustee

The Trustee has accepted the trusts and obligations imposed upon it by the Indenture and has agreed to perform and observe faithfully all of the duties, conditions and requirements imposed upon it in the Indenture. Except during the continuance of an Event of Default, the Trustee will undertake to perform such functions and duties and only such functions and duties as are specifically set forth in the Indenture, and no implied duties or obligations will be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs, subject to the limitations on liability set forth in the Indenture.

The Trustee will not be liable with respect to any action taken or omitted to be taken under the Indenture except for its own negligence or willful misconduct; provided that: (a) subject to the second sentence of the preceding paragraph, the Trustee will be obligated to take only such actions as are specifically set forth in the Indenture or as are specifically required to be taken by the Trustee when

requested in writing from time to time in accordance with the Indenture by the Issuer or by the Owners of not less than the aggregate principal amount of Outstanding Bonds specified in the Indenture with respect to the action in question; and (b) in the absence of bad faith on the part of the Trustee, the Trustee may rely, without any independent investigation or inquiry, as to the truth of the statements and to the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the procedural requirements of the Indenture; but in the case of any such certificate or opinion which by any provision is specifically required to be furnished to the Trustee, the Trustee will be under a duty to examine the same to determine whether or not it conforms to the procedural requirements of the Indenture; and (c) the Trustee will not be liable for any error of judgment made in good faith by the Trustee unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and (d) the Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding (or such lesser amount as may be specified in the Indenture) or otherwise in accordance with the express provisions of the Indenture.

The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as an obligation or a duty of the Trustee. The Trustee will not be required to give any bond or surety in respect of the execution of its trusts and powers under the Indenture or otherwise in respect of the premises.

Nothing contained in the Indenture or in the Bonds will be construed to impose any duties upon the Trustee beyond those expressly contained in the Indenture. All immunities, indemnities and other provisions of the Indenture as related to the duties and liabilities of the Trustee will apply to the Bonds.

Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds. In accepting the trust created in the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and, except as otherwise provided in the Indenture, all persons, including without limitation the Owners and the Issuer, having any claim against the Trustee arising from the Indenture may look for payment only to the Funds and accounts held by the Trustee under the Indenture.

Resignation of Trustee

The Trustee may resign and be discharged from the trusts created by the Indenture by giving the Issuer, the Lender and the Borrower at least 60 days' advance written notice. Such resignation will take effect on the day specified in such notice, but the Trustee will not be discharged from the trusts created by the Indenture until a successor Trustee has been approved and appointed and such successor has accepted such appointment. Subsequent to such date, the Trustee will have no further duties and obligations under the Indenture.

Removal of Trustee

The Trustee may be removed at any time, either with or without cause, by the Issuer at the written request of the Borrower or the Owners of a majority in aggregate principal amount of Outstanding Bonds, provided that all fees and expenses of the Trustee that are due and owing pursuant to the Indenture shall first be paid.

The Trustee may be removed at any time, either with or without cause, by the Issuer so long as there has been no Event of Default which then remains uncured and provided that all fees and expenses of the Trustee that are due and owing pursuant to the Indenture shall first be paid.

Any removal of the Trustee pursuant to the Indenture shall be effected by delivery to the Trustee, the Lender and the Borrower of a written instrument to that effect signed by an Authorized Representative of the Issuer.

Such removal shall take effect on the day specified in such notice, but the Trustee shall not be discharged from the trusts created under the Indenture until a successor Trustee has been approved and appointed and such successor has accepted such appointment. Subsequent to such date, the Trustee shall have no further duties and obligations under the Indenture.

Appointment of Successor Trustee

In case at any time the Trustee shall resign, be removed or otherwise become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee under the Indenture, and the Issuer shall promptly appoint a successor trustee. Any such appointment shall be made by a written instrument executed by an Authorized Representative of the Borrower and the Issuer. The Issuer shall direct the successor Trustee to mail notice by first class mail, postage prepaid, at least once within 30 days of such appointment, to the Lender, the Borrower and the Owners of all Outstanding Bonds at their addresses on the Bond Register.

If, in a proper case, no appointment of a successor Trustee shall be made within 90 days after the receipt by the Issuer of the Trustee's notice of resignation or of removal of the Trustee as described above, the retiring Trustee, at the expense of the Borrower, or any Owner may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

There shall at all times be a Trustee under the Indenture which shall be an association or a corporation organized and doing business under the laws of the United States or any state thereof, authorized under such laws to exercise corporate trust powers. Any successor Trustee shall have a combined capital and surplus of at least \$50,000,000 and assets under trust of at least \$50,000,000, and be subject to supervision or examination by federal or state authority, or shall have been appointed by a court of competent jurisdiction pursuant to the preceding paragraph. If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purposes of the Indenture, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time any successor Trustee shall cease to be eligible in accordance with the provisions of the Indenture and another association or corporation is eligible, the Trustee shall resign immediately in the manner and with the effect specified above.

Amendments of Loan Agreement, Regulatory Agreement and Ginnie Mae Certificates Not Requiring Consent of Owners

Subject to the provisions of the Indenture, the Loan Agreement and the Regulatory Agreement, the Issuer and the Trustee may, without the consent of or notice to the Owners, consent to any amendment, change or modification of the Regulatory Agreement, the Ginnie Mae Certificates or the Loan Agreement as follows:

- (a) as may be required by the provisions of, or as contemplated in, the Loan Agreement, the Regulatory Agreement, the Ginnie Mae Certificates or the Indenture;
- (b) for the purpose of curing any ambiguity or formal defect or omission therein;
- (c) to make any change therein that may be required by Ginnie Mae or HUD to conform such instruments to the requirements of applicable federal law or regulations and/or the terms of any the Mortgage Loan Documents or the Ginnie Mae Documents;
- (d) to make any change therein required by the Rating Agency in connection with obtaining and maintaining a rating on the Bonds; or
- (e) to make any other change therein which will not prejudice in any material respect the rights of the Owners of the Bonds then Outstanding.

Amendments of Loan Agreement, Regulatory Agreement and Ginnie Mae Certificates Requiring Consent of Owners

Except for amendments, changes or modifications as provided above, neither the Issuer nor the Trustee will consent to any amendment, change or modification of the Regulatory Agreement, the Ginnie Mae Certificates or the Loan Agreement without the written approval or consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding given and procured as provided in the Indenture. If at any time the Issuer and the Borrower request the consent of the Trustee to any such proposed amendment, change or modification, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided in the Indenture with respect to Supplemental Indentures. Such notice shall briefly state the nature of such proposed amendment, change or modification and will state that a copy of the instrument embodying the same is on file at the Principal Office of the Trustee for inspection by all Owners.

Amendment by Unanimous Consent

Notwithstanding any other provision of the Indenture, the Issuer and the Trustee may consent to any amendment, change or modification of the Loan Agreement, the Regulatory Agreement or the Ginnie Mae Certificates upon receipt of the consent of the Owners of all Bonds then Outstanding.

HUD Requirements

Notwithstanding anything in the Indenture or any other Financing Document to the contrary:

In the event of any conflict between any provision contained elsewhere in the Indenture or in any other Financing Document and any provision contained in this “HUD Requirements” caption, the provision contained in this caption will govern and be controlling in all respects.

The provisions of the Indenture and the other Financing Documents are subject and subordinate to the National Housing Act, all applicable HUD mortgage insurance (and Section 8 of the Housing Act, if applicable) regulations and administrative requirements, the Mortgage Loan Documents, all applicable Ginnie Mae regulations and related administrative requirements and the Ginnie Mae Documents; and in the event of any conflict between the provisions of the Indenture or the provisions of any of the other Financing Documents and the provisions of the National Housing Act, any applicable HUD regulations, HUD requirements, the Mortgage Loan Documents, any applicable Ginnie Mae regulations, Ginnie Mae requirements, and/or the Ginnie Mae Documents, the said National Housing Act, HUD regulations, HUD requirements, Mortgage Loan Documents, Ginnie Mae regulations, Ginnie Mae requirements and Ginnie Mae Documents will be controlling in all respects.

No amendment to the Indenture or any of the other Financing Documents will be made without the prior written consent of HUD if, in the opinion of counsel to the Lender, such amendment would result in a conflict with the National Housing Act, any applicable HUD regulations, HUD requirements, Ginnie Mae regulations, Ginnie Mae requirements, the Mortgage Loan Documents or the Ginnie Mae Documents.

Enforcement of the provisions of the Indenture or the provisions of any of the other Financing Documents will not result in any claim under the Mortgage Loan, or any claim against the Development, Mortgage Loan proceeds, any reserve or deposit made with the Lender or another Person required by HUD or the Lender in connection with the Mortgage Loan transaction, or against the rents or other income from the Development (other than available Surplus Cash).

The Borrower will not be deemed to be in violation of the Indenture or any other Financing Documents if it will take (or refrain from taking) any actions required (or prohibited) by HUD pursuant to the National Housing Act, applicable mortgage insurance regulations, related administrative requirements, the Mortgage Loan Documents, applicable Ginnie Mae regulations, related administrative

requirements and the Ginnie Mae Documents and, if applicable, Section 8 of the Housing Act and regulations promulgated thereunder.

The provisions of this caption will inure to the benefit of the Borrower, the Issuer, the Lender and HUD, and their successors and assigns.

Any assignment, transfer or pledge of the Mortgage Loan or a participation in the Mortgage Loan by way of a participation or other arrangement which may be made pursuant to the terms of the Indenture or any of the other Financing Documents will be made in accordance with the National Housing Act and the HUD regulations, including specifically 24 C.F.R. 207.261 or any successor regulation. Any assignment, transfer or pledge not made in accordance with the terms of this paragraph and said HUD regulations will be void.

A default under the Indenture or any other Financing Document will not constitute a default under the Mortgage Note, Mortgage or any other Mortgage Loan Document.

Nothing contained in the Indenture or any other Financing Document will restrict or adversely affect the duties and obligations of the Lender under the contract of mortgage insurance between the Lender and HUD.

Development funds held by the Lender on behalf of the Borrower under the contract of mortgage insurance are required to be maintained separate and apart from the Funds established and held for payments to the Owners and the various escrows and Funds under the Indenture and the other Financing Documents.

Except for funds held under the Indenture, any pledge of Development funds for the benefit of the Owners is limited to a pledge of principal and interest payments received by the Trustee on the Ginnie Mae Certificates. There is no pledge of gross revenues of the Development or any Development assets.

The Lender will maintain certain HUD-required escrow funds outside the terms of the Indenture. The enforcement of the Indenture will not result in the Trustee or any Owner having any right to, interest in, or claim against any HUD-required escrow fund, the Development, the Mortgage Loan proceeds, any reserve or deposit required by HUD in connection with the Mortgage Loan transaction, or the rents or other income from the Development (other than available Surplus Cash).

The Bonds are not a debt of the United States of America, HUD or any other governmental agency and are not guaranteed by the full faith and credit of the United States.

In the event that proceeds are received from a Condemnation Award or from the payment of a claim under a hazard insurance policy, early redemption of the Bonds can arise only subsequent to a prepayment of the insured mortgage and subsequent payment under the Ginnie Mae Certificates.

The HUD Regulatory Agreement requires the establishment of a reserve fund for replacements, and therefore, the Indenture does not provide for the creation of such a reserve fund.

The provisions of this caption will not be used to and will not be construed so as to allow the Indenture to violate any applicable provision of State law to the extent such law is not otherwise preempted by applicable federal statute, regulation or rule.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary, which does not purport to be complete, comprehensive or definitive, of certain provisions of the Loan Agreement, which is qualified in its entirety by reference to the Loan Agreement.

Loan of Bond Proceeds

The Issuer will simultaneously with the execution and delivery of the Loan Agreement proceed with the issuance and sale of the Bonds. The Issuer will deposit the proceeds of sale of the Bonds in accordance with the Indenture.

The Lender will make the Mortgage Loan to the Borrower, and will promptly deliver, or cause to be delivered, the Ginnie Mae Certificates to the Trustee if and when issued, in accordance with the Indenture; provided, however, that the Lender will have no obligation to make the Mortgage Loan unless and until the Initial Endorsement has occurred and all other terms and conditions of the FHA Commitment and the Lender Commitment have been satisfied.

The Borrower will take all actions required of it to cause the Ginnie Mae Certificates to be promptly issued and delivered as contemplated by the Loan Agreement, including the funding of all required escrows and reserves.

The Trustee will make disbursements from the Acquisition Fund and the Capitalized Interest Account therein and will acquire the Ginnie Mae Certificates from the Lender in accordance with the Indenture.

In the event that the Mortgage Note commences amortization prior to the date that the Project Loan Certificate is purchased by the Trustee, the Lender will retain for its own account all payments on the Mortgage Note that represent principal amortization payments thereof which are received prior to the date of purchase of the Project Loan Certificate by the Trustee and will not pass through such principal amortization payments to the Trustee, unless otherwise required by Ginnie Mae; however, the retention of such principal amortization payments by the Lender may result in a reduction in the amount of the Project Loan Certificate when issued equal to any such principal amortization payments.

Limitation of Issuer's Liability

All obligations of the Issuer incurred under the Loan Agreement and under the Regulatory Agreement and the Indenture will be limited obligations of the Issuer, payable solely and only from Bond proceeds and the Trust Estate. The Issuer will have no obligations under any documents or instruments mentioned in the Loan Agreement, other than the Loan Agreement, the Indenture, the Regulatory Agreement and the Bonds. The Bonds will be limited obligations of the Issuer as provided therein and in the Indenture, and will be payable solely from the Trust Estate pledged therefor under the Indenture. No Owner of any of the Bonds will ever have the right to compel any exercise of the taxing power of the State or any political subdivision thereof, nor to enforce the payment thereof against any property of the State or any such political subdivision thereof, including the Issuer, except as provided in the Indenture.

No board member, officer, employee or agent of the Issuer, including any person executing the Loan Agreement, will be liable personally under the Loan Agreement or for any reason relating to the issuance of the Bonds. No recourse will be had for the payment of the principal of, premium, if any, or interest on the Bonds, or for any claim based thereon, or otherwise in respect thereof, or based on or in respect of the Loan Agreement or any amendment hereto, against any board member, officer, employee or agent, as such, of the Issuer or any successor whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, as part of the consideration for the issuance of the Bonds, expressly waived and released.

Amounts Payable

The Borrower will make payments required by the Mortgage Note, as and when the same become due. For so long as the Bonds are Outstanding and except as otherwise contemplated by the Loan Agreement or by the Indenture, or as may be required by HUD, the Borrower will not execute any amendment to the Mortgage Note that results in a decrease in the amount payable thereunder without the consent of the Owners of all the Bonds Outstanding on the effective date of such amendment.

To the extent not paid pursuant to the Mortgage Note or the Indenture, the Borrower also shall pay, or cause to be paid, as and when the same become due, (a) to the Trustee, the Trustee Fees as provided in the Indenture (including an annual minimum fee equal to \$3,500 per annum) and subject to the limitations herein, and expenses reasonably incurred by it as Trustee under the Indenture, including without limitation the reasonable fees and the expenses of its counsel, and its fees and expenses if the Trustee is the Dissemination Agent in connection with the Borrower's compliance with its obligations under the Loan Agreement, all charges for exchange or registration of transfer of Bonds and all other such amounts which the Borrower assumes or agrees to pay under the Loan Agreement, including any cost or expense necessary to cancel and discharge the Indenture upon payment in full of the Bonds (which amounts described in this clause (a) shall be paid upon demand and in any event no later than thirty (30) days after receipt of request for payment thereof); (b) to the Trustee the amount, if any, required to pay the principal of and interest on the Bonds when due (including without limitation such amounts resulting from "negative arbitrage" on the investment of Proceeds); (c) to the trustee under the Mortgage its reasonable fees and expenses, if any, for services rendered thereunder; (d) (i) to the Trustee, for remittance to the Issuer, on or prior to the 5th day of each calendar month, commencing July 5, 2009, 1/12th of the Issuer Administration Fee, and (ii) to the Trustee, for remittance to the Issuer, on or prior to the 5th day of each calendar month, commencing June 5, 2008, 1/12th of the Issuer Compliance Fee, and (iii) to the Issuer or to any payee designated by the Issuer, all expenses of the Issuer, its agents or employees incurred at any time related to the Bonds or the Development or the financing thereof, including, without limitation, legal and advisory fees and expenses incurred in connection with the interpretation, performance, enforcement or amendment of any documents relating to the Development or the Bonds or in connection with questions or other matters arising under such documents, which amounts described in this clause (d) shall be paid upon demand and in any event no later than thirty days after receipt of request for payment thereof; (e) to the rebate analyst the reasonable fees of calculating the Rebate Amount; (f) any Rebate Amount; (g) to FHA, Ginnie Mae and the Lender all fees and expenses associated with obtaining FHA and Ginnie Mae approvals necessary for the issuance of the FHA Commitment and the Ginnie Mae Certificates; however, the aggregate of all such amounts paid to the Issuer, or to the Trustee on its behalf, shall not equal or exceed an amount which would cause the "yield" on any "purpose investment" to be "materially higher" than the "yield" on the Series 2007A Bonds, as such terms are defined in the Code; and (h) to the Trustee, for remittance to the Asset Oversight Agent, on or prior to the 15th day of each calendar month, 1/12th of the Asset Oversight Agent's Fee, commencing June 15, 2008.

Obligations of Borrower

The obligation of the Borrower to make payments on the Mortgage Note, to make all other payments provided for in the Loan Agreement and to perform and observe the other agreements and covenants on its part in the Loan Agreement will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Issuer, the Trustee, the Lender or any other Person. Subject to prepayment of the Mortgage Note in full and termination as provided in the Loan Agreement, the Borrower will not suspend or discontinue any such payment under the Loan Agreement or on the Mortgage Note (any reamortization of payments on the Mortgage Note in accordance with the Indenture and the Mortgage will not constitute a suspension or discontinuance of payments on the Mortgage Note) or fail to perform and observe any of its other agreements and covenants contained in the Loan Agreement or terminate the Loan Agreement for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may deprive the Borrower of the use and enjoyment of the Development, failure of consideration or

commercial frustration of purpose, any damage to or destruction of the Development or any part thereof, the taking by eminent domain of title to or the right to temporary use of all or any part of the Development, any change in the tax or other laws of the United States of America, the State or any political or taxing subdivision of either thereof, or any failure by the Issuer to perform and observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement.

Notwithstanding any provisions in the Loan Agreement or any of the other Financing Documents to the contrary, enforcement of the provisions of the Loan Agreement or any of the other Financing Documents will not result in any claim against the Development, the mortgaged property, Mortgage Loan proceeds, any reserve or deposit required by HUD or the Lender in connection with the Mortgage Loan, or the rents or other income from the Development (other than available Surplus Cash) and, with the exception of the indemnification and fees and expenses provisions in favor of the Issuer or the Trustee contained in the Loan Agreement (subject to the provisions of the Loan Agreement described under "HUD Requirements" below), the liability of the Borrower for any breach or default by or obligation of the Borrower under the Loan Agreement or any of the other Financing Documents will be limited to the undistributed Surplus Cash, which is otherwise distributable pursuant to the terms of the HUD Regulatory Agreement and to the collateral given now or in the future by the Borrower pursuant to the Indenture or otherwise for the Borrower's obligations under the Loan Agreement. By executing the Loan Agreement, each of the Issuer and the Trustee affirms that no pledge has been made and that it has no claim, and will not later assert any claim, against the mortgaged property, the Mortgage Loan proceeds, any reserve or deposit made with the Lender or required by HUD in connection with the Mortgage Loan transaction or against the income from the mortgaged property for payment of any obligation contained in the Loan Agreement or in any of the other Financing Documents; provided, however, that nothing in the Loan Agreement or any of the other Financing Documents will alter, affect or diminish the rights of the Lender under the Mortgage Loan Documents.

Additional Charges

The Borrower agrees to pay when due each and all of the following:

(a) (i) All indemnity payments required to be made under certain provisions of the Loan Agreement and the Indenture to the Issuer and the Trustee; (ii) all fees (including legal fees) and expenses incurred by the Issuer to exercise its Unassigned Issuer Rights under the Loan Agreement; and (iii) all other expenses incurred by the Issuer and Trustee in relation to the Development which are not otherwise required to be paid by the Borrower under the terms of the Loan Agreement or any separate fee agreement, including costs incurred as a result of a request by the Borrower.

(b) Any and all extraordinary fees and expenses of the Issuer, the Asset Oversight Agent and of the Trustee incurred by or on behalf of either of them at any time related to the Development which are not paid from the amounts held under the Indenture, including, without limitation, legal fees and expenses incurred in connection with the interpretation, performance, enforcement or amendment of the Indenture, the Financing Documents or any other documents relating to the Development or the Bonds or in connection with any federal or state tax audit or any questions or other matters arising under such documents. Such costs and expenses shall include, without limitation, charges for title insurance (including endorsements), filing, recording and escrow charges, fees for appraisal, architectural and engineering review, construction services and environmental services, mortgage taxes, document review and preparation, expenses of legal counsel and any other reasonable fees and costs for services, regardless of whether such services are furnished by the Issuer's, the Asset Oversight Agent's or Trustee's employees or agents or independent contractors; provided that the Borrower may, without creating a default under the Loan Agreement, contest in good faith the reasonableness of any such fees, charges or expenses. Amounts payable or reimbursable, as the case may be, pursuant to this paragraph will include, but not be limited to, (i) all costs of printing any replacement bonds required to be issued under the Indenture to the extent such costs are not paid by the Holders and (ii) the fees and expenses of any experts

retained by the Trustee, the Asset Oversight Agent and/or the Issuer pursuant to the terms of the Indenture or any of the Financing Documents.

(c) Any Costs of Issuance in excess of amounts available in the Costs of Issuance Fund; and

(d) The Rebate Amount to the extent that the funds available under the Indenture for the payment thereof are not sufficient or available therefor and any amount necessary to pay the Arbitrage Consultant's Fee.

Operation of Development

The Borrower will operate or cause the Development to be operated as a housing project pursuant to Section 221(d)(4) of the National Housing Act, as a qualified low-income housing project pursuant to Section 42(g) of the Code, and in accordance with the Loan Agreement, the Regulatory Agreement, the Code and the Act. Further, all work performed in connection with the Development will be performed in strict compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations now in force or that may be enacted hereafter.

Events of Default

Each of the following will constitute an event of default under the Loan Agreement:

(a) The Borrower defaults in the performance of any covenant, agreement or obligation under the Loan Agreement or the Regulatory Agreement and such default remains uncured for a period of 30 days after written notice thereof has been given by the Issuer or the Trustee to the Borrower;

(b) An Event of Default under the Indenture occurs and is continuing;

(c) Any warranty, representation or other statement made by or on behalf of the Borrower contained in the Loan Agreement or the Indenture or in any instrument furnished in connection with the issuance or sale of any Bonds was false or misleading in any material respect at the time it was made; or

(d) An Act of Bankruptcy of the Borrower.

Notwithstanding the foregoing, no Event of Default under the Loan Agreement will constitute (a) an event of default under the Bonds or (b) a default under any of the Mortgage Loan Documents, unless the facts and circumstances giving rise to such Event of Default constitute a default under the Mortgage Loan Documents. Notwithstanding the occurrence of any Event of Default under the Loan Agreement, the Indenture or the Regulatory Agreement, the Trustee will continue to purchase the Ginnie Mae Certificates from the Lender, as and when proffered, provided that said Ginnie Mae Certificates are delivered to the Trustee not later than the Construction Loan Certificate Maturity Date and/or the Project Loan Certificate Delivery Date, as the same may be extended pursuant to the Indenture.

Remedies on Default

Upon the occurrence of an event described under "Events of Default" above, the Issuer and the Trustee will look solely to the Borrower for the payment of all sums or the performance of all or any part of the monetary obligations due or incurred as a result of such event of default.

In addition to the remedies granted to the Issuer and the Trustee under the Loan Agreement, the Issuer, or the Trustee acting on behalf of the Issuer, may take any one or more of the following steps:

(a) by mandamus or other suit, action or proceeding at law or in equity, including injunctive relief, require the Borrower to perform its obligations and covenants under the Loan Agreement or enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer or the Trustee under the Loan Agreement;

(b) require the Borrower to pay to the Issuer an amount equal to the rent or other amounts received by the Borrower for any units in the Development which were in violation of the Loan Agreement during the period such violation continued; and

(c) except as provided in the Loan Agreement, take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower under the Loan Agreement.

The Issuer and the Trustee will cooperate in any action taken by the other with respect to the Loan Agreement to enforce the covenants contained therein. The Borrower will pay all costs and expenses that may be incurred by the Issuer or the Trustee in connection with the exercise of such rights.

HUD Requirements

In the event of any conflict between any provision contained elsewhere in the Loan Agreement or in any other Financing Document and any provision of the Loan Agreement described in this "HUD Requirements" caption, the provision contained in this "HUD Requirements" caption will govern and be controlling in all respects.

The provisions of the Loan Agreement and the other Financing Documents are subject and subordinate to the National Housing Act, all applicable HUD mortgage insurance (and Section 8 of the Housing Act, if applicable) regulations and related administrative requirements, the Mortgage Loan Documents, all applicable Ginnie Mae regulations and administrative requirements and the Ginnie Mae Documents; and in the event of any conflict between the provisions of the Loan Agreement or the provisions of any of the other Financing Documents and the provisions of the National Housing Act, any applicable HUD regulations, HUD requirements, the Mortgage Loan Documents, any applicable Ginnie Mae regulations, Ginnie Mae requirements and/or the Ginnie Mae Documents, the said National Housing Act, HUD regulations, HUD requirements, Mortgage Loan Documents, Ginnie Mae regulations, Ginnie Mae requirements and Ginnie Mae Documents will be controlling in all respects.

No amendment to the Loan Agreement or any of the other Financing Documents shall be made without the prior written consent of HUD if, in the opinion of Lender's counsel, such amendment would result in a conflict with the National Housing Act, any applicable HUD regulations, HUD requirements, Ginnie Mae regulations, Ginnie Mae requirements, the Mortgage Loan Documents or the Ginnie Mae Documents.

Enforcement of the provisions of the Loan Agreement or the provisions of any of the other Financing Documents shall not result in any claim under the Mortgage Loan, or any claim against the Development, Mortgage Loan proceeds, any reserve or deposit made with the Lender or another Person required by HUD or the Lender in connection with the Mortgage Loan transaction, or against the rents or other income from the Development (other than available Surplus Cash).

The Borrower shall not be deemed to be in violation of the Loan Agreement or any other Financing Documents if it shall take (or refrain from taking) any actions required (or prohibited) by HUD pursuant to the National Housing Act, applicable mortgage insurance regulations, related administrative requirements, the Mortgage Loan Documents, applicable Ginnie Mae regulations, related administrative requirements and the Ginnie Mae Documents and, if applicable, Section 8 of the Housing Act and regulations promulgated thereunder.

The provisions of the Loan Agreement described in this caption shall inure to the benefit of the Borrower, the Issuer, the Lender and HUD, and their successors and assigns.

Any assignment, transfer or pledge of the Mortgage Loan or a participation in the Mortgage Loan by way of a participation or other arrangement which may be made pursuant to the terms of the Indenture or any of the other Financing Documents shall be made in accordance with the National Housing Act and the HUD regulations, including specifically 24 C.F.R. §207.261 or any successor regulation. Any assignment, transfer or pledge not made in accordance with the terms of the Loan Agreement described in this "HUD Requirements" caption and said HUD regulations shall be void.

A default under the Loan Agreement or any other Financing Document shall not constitute a default under the Mortgage Note, Mortgage or any other Mortgage Loan Document, except as described in "Events of Default" above.

Nothing contained in the Loan Agreement or any other Financing Document shall restrict or adversely affect the duties and obligations of the Lender under the contract of mortgage insurance between the Lender and HUD.

Development funds held by the Lender on behalf of the Borrower under the contract of mortgage insurance are required to be maintained separate and apart from the funds established and held for payments to the Owners and the various escrows and funds under the Indenture and the other Financing Documents.

Except for funds held under the Indenture, any pledge of Development funds for the benefit of the Owners is limited to a pledge of principal and interest payments received by the Trustee on the Ginnie Mae Certificates. There is no pledge of gross revenues of the Development or any Development assets.

The Lender will maintain certain HUD-required escrow funds outside the terms of the Loan Agreement. The enforcement of the Loan Agreement will not result in the Trustee or any Owner having any right to, interest in, or claim against any HUD-required escrow fund, the Development, the Mortgage Loan proceeds, any reserve or deposit required by HUD in connection with the Mortgage Loan transaction, or the rents or other income from the Development (other than available Surplus Cash).

The Bonds are not a debt of the United States of America, HUD or any other governmental agency and are not guaranteed by the full faith and credit of the United States.

In the event that proceeds are received from a Condemnation Award or from the payment of a claim under a hazard insurance policy, early redemption of the Bonds can arise only subsequent to a prepayment of the insured mortgage and subsequent payment under the Ginnie Mae Certificates.

The HUD Regulatory Agreement requires the establishment of a reserve fund for replacements, and therefore, the Loan Agreement does not provide for the creation of such a reserve fund.

The provisions of the Loan Agreement described under this caption will not be used to and will not be construed so as to allow the Loan Agreement to violate any applicable provision of State law to the extent such law is not otherwise preempted by applicable federal statute, regulation or rule.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT

The following is a summary, which does not purport to be complete, comprehensive or definitive, of certain provisions of the Regulatory Agreement, which is qualified in its entirety by reference to the Regulatory Agreement.

Tax-Exempt Status of the Series 2007A Bonds

The Borrower will not take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on the Series 2007A Bonds from gross income, as defined in Section 61 of the Code, for federal income tax purposes (subject to the inclusion of any exceptions contained in the opinion delivered upon the original issuance of the Series 2007A Bonds). With the intent not to limit the generality of the foregoing, the Borrower covenants and agrees that prior to the final maturity of the Series 2007A Bonds, unless it has received and filed with the Issuer and Trustee an opinion of Bond Counsel to the effect that failure to comply with any such covenant or agreement, in whole or in part, will not adversely affect the exclusion from gross income for federal income tax purposes of interest paid or payable on the Series 2007A Bonds (other than interest on any Series 2007A Bond for a period during which such Series 2007A Bond is held by a "substantial user" of any facility financed with the proceeds of the Series 2007A Bonds or a "related person," as such terms are used in Section 147(a) of the Code and except as a result of any minimum tax, preference tax or other similar tax):

(a) that the Development will be owned, managed and operated as a "qualified residential rental project" within the meaning of Section 142(d) of the Code, on a continuous basis during the Qualified Project Period, to the end that the interest on the Series 2007A Bonds will be excluded from gross income for federal income tax purposes. In particular, the Borrower has covenanted and agreed, among other things, at all times during the Qualified Project Period, as follows:

(i) that the Development will qualify as residential rental property and will be owned, managed and operated at all times during the Qualified Project Period as a "qualified residential rental project" comprised of residential Units and facilities functionally related and subordinate thereto, in accordance with Section 142(d) of the Code;

(ii) that the Development will consist of one building or structure or several proximate and interrelated buildings or structures, each of which will be a discrete edifice or other man-made construction consisting of an independent foundation, outer walls and a roof, and all of which (A) will be located on a single tract of land or two or more parcels of land that are contiguous (i.e., their boundaries meet at one or more points) except for the interposition of a road, street, stream or similar property, (B) will be owned by the same person for federal income tax purposes, and (C) will be financed pursuant to a common plan;

(iii) that substantially all of the Development will consist of similarly constructed Units together with functionally related and subordinate facilities for use by Development tenants, such as swimming pools, other recreational facilities, parking areas, heating and cooling equipment, trash disposal equipment, units for resident managers, security personnel or maintenance personnel and other facilities that are reasonably required for the Development;

(iv) that each Unit will contain complete facilities for living, sleeping, eating, cooking and sanitation, e.g., a living area, a sleeping area, bathing and sanitation facilities, and cooking facilities equipped with a cooking range, refrigerator and sink, all of which are separate and distinct from other units;

(v) that each Unit will be rented or available for rental on a continuous basis to Eligible Tenants (subject to the limitations contained in the Regulatory Agreement and the Loan Agreement) at all times during the Qualified Project Period (unless occupied by or reserved for a resident manager, security personnel or maintenance personnel that are functionally related and subordinate to and reasonably required for the Development), that the Borrower will not give preference in renting Units to any particular class or group of persons, other than Persons with Special Needs, Low-Income Tenants and other Eligible Tenants as provided in the Regulatory Agreement, and that at no time will any portion of the Development be exclusively reserved for use by a limited number of nonexempt persons in their trades or businesses;

(vi) that at no time during the Qualified Project Period will any Unit in any building or structure in the Development which contains fewer than five Units be occupied by the Borrower;

(vii) that at no time during the Qualified Project Period will any of the Units be utilized on a transient basis by being leased or rented for a period of less than thirty days or by being used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, sanitarium, nursing home, rest home, trailer park or trailer court; and

(viii) that the land and the facilities will be functionally related and subordinate to the Units comprising the Development and will be of a size and character that is commensurate with the size and number of such Units.

(b) The Borrower has represented, covenanted and agreed, continuously during the Qualified Project Period, that

(i) at least 40% of the Units (except for Units occupied or reserved for a resident manager or security or maintenance personnel that are functionally related and subordinate to the Development and are reasonably required for the Development) (the "Set Aside") that are available for occupancy will be occupied or held vacant and available for occupancy at all times by Low-Income Tenants. A vacant Unit that was most recently occupied by a Low-Income Tenant is treated as rented and occupied by a Low-Income Tenant until reoccupied, at which time the character of such Unit will be redetermined; and

(ii) the Borrower will obtain income certifications from each Low-Income Tenant and maintain complete and accurate records pertaining to Low-Income Tenants and file and maintain all documents, reports and records required by Section 142(d) of the Code and the Regulatory Agreement, including Tenant Income Certifications.

Housing Development During the State Restrictive Period

The Issuer and the Borrower have recognized and declared their understanding and intent that the Development is to be owned, managed and operated as a "housing development," as such term is defined in Section 2306.004(13) of the Act, and in compliance with applicable restrictions and limitations as provided in the Act and the rules of the Issuer, until the expiration of the State Restrictive Period.

To the same end, the Borrower has represented, covenanted and agreed, among other things, as follows during the State Restrictive Period:

(a) except for Units occupied or reserved for a resident manager and maintenance and security personnel that are reasonably required for the Development, to assure that 100% of the Units will be reserved for Eligible Tenants;

(b) to comply with the provisions of Section 2306.269 of the Act regarding tenant and manager selection;

(c) to provide regular maintenance to keep the Development sanitary, decent and safe and to comply with the requirements of Section 2306.186 of the Act; and

(d) to renew any available rental subsidies which are sufficient to maintain the economic viability of the Development, pursuant to Section 2306.185(c) of the Act.

Persons With Special Needs

The Borrower has represented, covenanted and warranted that (a) at least 5% of the Units within the Development have been designed to be accessible to Persons with Special Needs and hardware and cabinetry will be stored on site or will be provided to be installed on an as needed basis in such Units, and (b) during the State Restrictive Period it will use its best efforts (including giving preference to Persons with Special Needs) to: (i) make at least 5 percent of the Units within the Development available for occupancy by Persons with Special Needs, (ii) make reasonable accommodations for such persons and (iii) allow reasonable modifications at the tenant's sole expense (including the cost of removing the modifications and restoring the related Unit at the end of the tenant's occupancy) pursuant to the Housing Act. During the State Restrictive Period, the Borrower will maintain written policies regarding the Borrower's outreach program and marketing program to Persons with Special Needs.

Sale or Transfer of the Development or Change in General Partner

The Borrower has covenanted and agreed not to sell, transfer or otherwise dispose of the Development, prior to the expiration of the Qualified Project Period (other than pursuant to the lease of Units to Eligible Tenants), without (a) complying with any applicable provisions of the Regulatory Agreement, the Loan Agreement and the other Financing Documents and (b) obtaining the prior written consent of the Issuer. Such consent of the Issuer will not be unreasonably withheld and will be given if certain conditions to the sale or other disposition set forth in the Regulatory Agreement are met or waived in writing by the Issuer. Except as provided in the Regulatory Agreement, the Borrower may not change its general partner by transfer, sale or otherwise without the prior written consent of the Issuer.

Term

The Regulatory Agreement and all and each of the provisions thereof will become effective upon its execution and delivery, will remain in full force and effect for the periods provided in the Regulatory Agreement and, except as otherwise provided in this section, will terminate in its entirety at the end of the State Restrictive Period and be of no further force and effect, it being expressly agreed and understood that the provisions of the Regulatory Agreement are intended to survive the retirement of the Series 2007A Bonds, discharge of the Loan, termination of the Loan Agreement and defeasance or termination of the Indenture; provided, however, that the provisions related to the Qualified Project Period that are not incorporated into the State Restrictive Period will terminate in their entirety at the end of the Qualified Project Period.

The terms of the Regulatory Agreement to the contrary notwithstanding, the requirements set forth in the Regulatory Agreement will terminate, without the requirement of any consent by the Issuer or the Trustee, and be of no further force and effect in the event of involuntary noncompliance with the provisions of the Regulatory Agreement caused by fire, seizure, requisition, change in a federal or Texas law or an action of a federal agency after the Closing Date which prevents the Issuer or the Trustee from enforcing the provisions of the Regulatory Agreement, or foreclosure or transfer of title by deed in lieu of foreclosure or other similar involuntary transfer, condemnation or a similar event, but only if, within a reasonable period thereafter, either the Bonds are retired in full or amounts received as a consequence of such event are used to provide a qualified residential rental project which meets the requirements of the

Code and Texas law, including, but not limited to, the provisions set forth in the Regulatory Agreement. The provisions of the preceding sentence will cease to apply and the requirements referred to therein will be reinstated if, at any time during the Qualified Project Period, after the termination of such requirements as a result of involuntary noncompliance due to foreclosure, transfer of title by deed in lieu of foreclosure or similar event, the Borrower or any Related Person obtains an ownership interest in the Development for federal income tax purposes and for the purposes of Texas law.

Default; Enforcement by the Trustee and the Issuer

If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in the Regulatory Agreement, and if such default remains uncured by the Borrower for a period of 60 days after written notice thereof will have been given by the Issuer or the Trustee to the Borrower, then the Trustee, acting on its own behalf or on behalf of the Issuer, will declare an "Event of Default" to have occurred under the Regulatory Agreement; provided, however, that, if the default stated in the notice is of such a nature that it cannot be corrected within 60 days, such default will not constitute an Event of Default under the Regulatory Agreement and will not be declared an Event of Default so long as (a) the Borrower institutes corrective action within said 60 days and diligently pursues such action until the default is corrected and (b) in the opinion of Bond Counsel, the failure to cure said default within 60 days will not adversely affect the exclusion from gross income of interest on the Series 2007A Bonds for federal income tax purposes.

Following the declaration of an Event of Default under the Regulatory Agreement, the Trustee or the Issuer, may, at its option, take any one or more of the following steps:

(a) by mandamus or other suit, action or proceeding at law or in equity, including injunctive relief, require the Borrower to perform its obligations and covenants under the Regulatory Agreement or enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer or the Trustee under the Regulatory Agreement;

(b) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Development during regular business hours following reasonable notice; and

(c) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower under the Regulatory Agreement.

All rights and remedies in the Regulatory Agreement given or granted are cumulative, nonexclusive and in addition to any and all rights and remedies that the parties may have or may be given by reason of any law, statute, ordinance, document or otherwise. Notwithstanding the availability of the remedy of specific performance provided for in this section, promptly upon determining that a violation of the Regulatory Agreement has occurred, the Issuer will to the extent that it has actual knowledge thereof, by notice in writing, use its best efforts to inform the Trustee and the Borrower (provided that the failure to notify will not adversely affect the Issuer's or the Trustee's rights under the Regulatory Agreement) that a violation of the Regulatory Agreement has occurred.

Enforcement of Certain Provisions by Tenants and Other Private Parties

(a) Following the declaration of an Event of Default under the Regulatory Agreement with respect to the provisions under subsections (b) and (c) of "Housing Development During the State Restrictive Period" above only, a tenant of the Development or any private party may, at its option by mandamus or other suit, including injunctive relief, require the Borrower to perform its obligations and covenants under the provisions under subsections (b) and (c) of "Housing Development During the State Restrictive Period" above.

(b) If the Issuer, a tenant of the Development, or any private party brings an action to enforce the obligations and covenants of the Borrower under the provisions under subsections (b) and (c) of "Housing Development During the State Restrictive Period" above, such party will have the right to recover attorney's fees directly from the Borrower, without recourse to the Development, if such party is successful in an action seeking enforcement of the obligations and covenants of the Borrower under the Regulatory Agreement. This is the only monetary relief a tenant of the Development or other private parties may receive under the Regulatory Agreement and any such recovery is subject to the provisions set forth under "Default; Enforcement by the Trustee and the Issuer" above.

Amendments

Subject to the provisions of the Regulatory Agreement, the Regulatory Agreement will be amended only by a written instrument executed by the parties thereto, or their successors in title, and duly recorded in the real property records of Dallas County, Texas, and only upon receipt by the Issuer of an opinion from Bond Counsel that such amendment will not adversely affect the exclusion from gross income of interest on the Series 2007A Bonds (other than interest on any Series 2007A Bond for a period during which such Series 2007A Bond is held by a "substantial user" of any facility financed with the proceeds of the Series 2007A Bonds or a "related person," as such terms are used in Section 147(a) of the Code and except as a result of any minimum tax, preference tax or other similar tax), and is not contrary to the provisions of the Act.

HUD Requirements

Notwithstanding anything in the Regulatory Agreement to the contrary, except the requirements in 26 U.S.C. § 42(h)(6)(E)(ii), the provisions of the Regulatory Agreement are expressly subordinate to the National Housing Act, the Mortgage Loan Documents, all applicable HUD mortgage insurance (and Section 8 of the Housing Act, if applicable) regulations and related administrative requirements, all applicable Ginnie Mae regulations and administrative requirements and the Ginnie Mae Documents. In the event of any conflict between the provisions of the Regulatory Agreement and the provisions of the National Housing Act, any applicable HUD regulations, related HUD administrative requirements, the Mortgage Loan Documents, any applicable Ginnie Mae regulations, Ginnie Mae administrative requirements and/or the Ginnie Mae Documents, the National Housing Act, the Mortgage Loan Documents, the HUD regulations, related HUD administrative requirements, Ginnie Mae regulations, Ginnie Mae administrative requirements and Ginnie Mae Documents will control.

In the event of foreclosure or transfer of title by deed in lieu of foreclosure, any and all land use covenants contained in the Regulatory Agreement will automatically terminate.

Failure to comply with the land-use covenants contained in the Regulatory Agreement will not serve as a basis for default on the HUD insured mortgage.

Enforcement of the covenants in the Regulatory Agreement will not result in any claim against the Development, any reserve or deposit required by HUD in connection with the mortgage loan transaction or the rents or other income from the property other than:

1. Available surplus cash, if the mortgagor is profit-motivated;
2. Available distributions and residual receipts authorized for release by HUD, if the mortgagor is limited distribution; or
3. Available residual receipts authorized by HUD if the mortgagor is non-profit.

Any subsequent amendment to the Regulatory Agreement is subject to prior HUD approval.

No action shall be taken in accordance with the rights granted in the Regulatory Agreement to preserve the tax exemption of the interest on the Series 2007A Bonds, or prohibiting the Borrower from taking any action that might jeopardize the tax exemption, except in strict accord with the National Housing Act, applicable HUD mortgage insurance regulations, the Mortgage Loan Documents, or if applicable, Section 8 of the Housing Act and the regulations thereunder.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENT

The following is a summary which does not purport to be complete, comprehensive or definitive, of certain provisions of the Continuing Disclosure Agreement, which is qualified in its entirety by reference to the Continuing Disclosure Agreement.

Purpose of the Continuing Disclosure Agreement

The Continuing Disclosure Agreement is being executed and delivered by the Borrower and the Trustee for the benefit of the Bondholders. The Borrower and the Trustee acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement, and has no liability to any person, including any Holder of the Bonds, with respect to any such reports, notices or disclosures.

Definitions

In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Continuing Disclosure Agreement unless otherwise defined below, the following capitalized terms will have the following meanings:

“Annual Report” means any Annual Report provided by the Borrower pursuant to the Continuing Disclosure Agreement, as described below.

“Beneficial Owner” means any person which has the power, directly or indirectly, with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” means the site member of the Borrower or his or her designee, or such other person as the Borrower designates in writing to the Dissemination Agent from time to time.

“Dissemination Agent” means Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent under the Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

“Listed Events” means any of the events listed under the subcaption “Reporting of Significant Events.”

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

- | | |
|--|---|
| 1. DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
201.346.0701 – phone
201.947.0107 – fax | 2. FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
212.771.6999 – phone
212.771.7390 – fax |
| 3. Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
609.279.3225 – phone
609.279.5962 – fax | 4. Standard & Poor’s J.J. Kenny Repository
55 Water Street, 45 th Floor
New York, New York 10041
212.438.4595 – phone
212.438.3975 – fax |

“Repository” means each National Repository and each State Repository.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” means any public or private repository or entity designated by the State of California, as a state repository for the purpose of the Rule. As of the date of the Continuing Disclosure Agreement, the State Repository is the Municipal Advisory Council of Texas, 606 West 8th Street, P.O. Box 2177, Austin, Texas 78768.

“Tax-exempt” means that interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Provision of Annual Reports

(a) The Borrower will, or will cause the Dissemination Agent to, not later than June 30 of each year, commencing in 2008, provide to each Repository an Annual Report which is consistent with the requirements described under “Content of Annual Reports” below. If the Borrower is to provide such Annual Report to each Repository, the Borrower will concurrently provide a copy of such Annual Report to the Dissemination Agent together with the written certification of compliance specified below. If the Dissemination Agent is to provide such Annual Report to each Repository, not later than 15 Business Days prior to said date, the Borrower will provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). The Borrower will provide a written certification with the Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Borrower hereunder. The Dissemination Agent may conclusively rely upon such certification of the Borrower. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of the Continuing Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report. The Dissemination Agent’s obligation to deliver the information at the times and with the contents described above will be limited to the extent the Borrower has provided such information to the Dissemination Agent as required hereby. The Dissemination Agent will have no duty or liability to determine whether the Borrower has complied with the Continuing Disclosure Agreement, and will be indemnified by the Borrower in connection with the Dissemination Agent’s obligations under the Continuing Disclosure Agreement. The Dissemination Agent will have no duty to review the Annual Report.

(b) If by 15 Business Days prior to the date specified in paragraph (a) above for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent will contact the Borrower in writing to inquire if the Borrower is in compliance with paragraph (a) above.

(c) If the Borrower does not provide a written certification to the Dissemination Agent to the effect that an Annual Report has been provided to the Repositories by the date required in paragraph (a) above, the Dissemination Agent will send a notice to each Repository regarding the failure to provide the Annual Report

(d) The Dissemination Agent will:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any (insofar as determinations regarding the National Repositories are concerned, the Dissemination Agent may conclusively rely on the list of National Repositories maintained by the United States Securities and Exchange Commission); and

(ii) to the extent the Borrower has provided the Annual Report to the Dissemination Agent, file a report with the Borrower, the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the information represented to the Dissemination Agent by the Borrower as the Annual Report has been provided pursuant to the Continuing Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

Content of Annual Reports

The Borrower's Annual Report will contain or incorporate by reference the following:

(a) the audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Borrower's audited financial statements are not available by the time the Annual Report is required to be filed as described under "Provisions of Annual Reports" above, the audited financial statements will be filed in the same manner as the Annual Report as soon as they become available; and

(b) data relating to occupancy rates.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Borrower is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower will clearly identify each such other document so incorporated by reference.

Reporting of Significant Events

(a) This section will govern the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies on the Bonds;
2. Non-payment related defaults on the Bonds;
3. Unscheduled draws on debt service reserves relating to the Bonds reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Series 2007A Bonds;
7. Modifications to rights of Bondholders;
8. Bond redemptions (other than pursuant to mandatory sinking fund redemption);
9. Defeasance on the Bonds;
10. Release, substitution, or sale of property securing repayment of the Bonds; and
11. Rating changes on the Bonds.

(b) The Trustee, if it is not the Dissemination Agent, will, within one day of obtaining actual knowledge of the occurrence of any of the Listed Events (except events listed in clauses (a)(1), (8) or (9) in which case the Trustee will notify the Dissemination Agent) (if the Trustee is not the Dissemination Agent) and the Borrower), and with no obligation to determine the materiality thereof, contact the Disclosure Representative, inform such person of the event, and request that the Borrower promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to paragraph (f)

below. It is agreed and understood that the duty to make the disclosures herein is that of the Borrower and not that of the Issuer, the Trustee or the Dissemination Agent. It is agreed and understood that the Trustee has agreed to give the foregoing notice to the Borrower as an accommodation to assist it in monitoring the occurrence of such event, but is under no obligation to investigate whether any of such event has occurred; provided that the Trustee's failure to so inform the Borrower will not relieve the Borrower of its obligations under this section. For purposes of the Continuing Disclosure Agreement, "actual knowledge" of such Listed Events will mean knowledge by an officer of the Trustee at its corporate trust office with responsibility for matters related to the administration of the Indenture.

(c) Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to the preceding paragraph or otherwise, the Borrower will within five business days determine if such event would constitute material information, within the meaning of such term under federal securities laws, for Holders of Bonds, provided, that any event under subsection (a)(11) will always be deemed to be material.

(d) If the Borrower has determined that knowledge of the occurrence of a Listed Event would be material under federal securities law, the Borrower will promptly notify the Dissemination Agent and the Trustee in writing. Such notice will instruct the Dissemination Agent to report the occurrence pursuant to paragraph (f) below. Such notice will be accompanied with the text of the disclosure that the Borrower desires to make, the written authorization of the Borrower for the Dissemination Agent to disseminate such information as provided herein, and the date the Borrower desires for the Dissemination Agent to disseminate the information.

(e) If in response to a request under paragraph (b) above, the Borrower determines that the Listed Event would not be material under federal securities law, the Borrower will so notify the Dissemination Agent in writing and instruct the Dissemination Agent in writing not to report the occurrence pursuant to the next paragraph.

(f) If the Dissemination Agent has been instructed by the Borrower as described in paragraph (b) above to report the occurrence of a Listed Event, the Dissemination Agent will file a notice of such occurrence with each Repository with a copy to the Borrower, the Trustee and the Issuer. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in paragraphs (a)(1), (8) or (9) will be given by the Dissemination Agent unless the Borrower gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in paragraphs (a)(8) and (9) will not be given under this paragraph any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

Termination of Reporting Obligation

The obligations of the Borrower, the Dissemination Agent and the Trustee under the Continuing Disclosure Agreement will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If the Borrower's obligations under the Loan Agreement are assumed in full by some other entity, such person will be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were the Borrower, and, subject to written notice to and consent by the Dissemination Agent and the Trustee, the original Borrower will have no further responsibility hereunder.

Amendment; Waiver

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Borrower, the Trustee and the Dissemination Agent may amend the Continuing Disclosure Agreement and any provision of the Continuing Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Borrower and

the Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Trustee, the Borrower or the Dissemination Agent will be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Default

In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and at the written direction of Holders of at least 25% in aggregate principal amount of Outstanding Bonds, will) solely to the extent indemnified to its satisfaction (including attorney fees and expenses), or any Holders or Beneficial Owner or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement will not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Borrower, the Trustee or the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel performance.

Beneficiaries

The Continuing Disclosure Agreement will inure solely to the benefit of the Issuer, the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriter, and the Holders from time to time of the Bonds, and will create no rights in any other person or entity.

Central Post Office

Any filing required to be made to a Repository under this Continuing Disclosure Agreement may be made solely by transmitting to the Texas Municipal Advisory Council ("MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to MAC dated September 7, 2004.

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

Texas Department of Housing and
Community Affairs
Austin, Texas

Wells Fargo Bank, National Association, as
Trustee
Dallas, Texas

Citigroup Global Markets Inc.
New York, New York

One Mesquite Creek, L.P.
Grand Prairie, Texas

Ladies and Gentlemen:

We have represented the Texas Department of Housing and Community Affairs (the "Issuer") as its bond counsel in connection with the issuance by the Issuer of its Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan – Villas at Mesquite Creek) Series 2007A in the original aggregate principal amount of \$_____ (the "Tax-Exempt Bonds"), and its Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan – Villas at Mesquite Creek) Taxable Series 2007B in the original aggregate principal amount of \$_____ (the "Taxable Bonds" and, together with the Tax-Exempt Bonds, the "Bonds"), pursuant to a resolution adopted by the governing board of the Issuer on March 20, 2007 (the "Bond Resolution") and a Trust Indenture dated as of June 1, 2007 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds bear interest at the rate and mature on the date as provided in the Indenture. The Bonds are subject to mandatory and optional redemption prior to maturity as set forth in the Indenture. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Indenture, in the Loan Agreement dated as of June 1, 2007 (the "Loan Agreement") among the Issuer, the Trustee, One Mesquite Creek, L.P. (the "Borrower") and Keycorp Real Estate Capital Markets, Inc. (the "Lender"), or in the Regulatory and Land Use Restriction Agreement dated as of June 1, 2007 (the "Regulatory Agreement"), among the Issuer, the Trustee and the Borrower.

The Bonds are being issued for the purpose of obtaining funds to make a loan (the "Loan") to the Borrower to provide financing for the acquisition, construction and equipping of a residential rental development located within Dallas County, Texas (the "Development"), to be occupied by individuals and families of low, very low and extremely low income and families of moderate income, as determined by the Issuer, and persons with special needs, all as required by the Act; and to be occupied at least partially (at least 40 percent) by Low-Income Tenants.

We have assumed with your permission and without independent verification (i) the genuineness of certificates, records and other documents submitted to us and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Indenture by the parties thereto, and the validity and binding effect of the Indenture on such parties; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us and on which we have relied was accurate and complete.

Bond Counsel's opinions also assume continuous compliance with all covenants and requirements set forth in the Indenture, the Loan Agreement and the Regulatory Agreement pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes. Prospective purchasers should be aware that HUD has required the inclusion of Section 26 in the Regulatory Agreement. This section provides that the provisions of the Regulatory Agreement are subordinate to the National Housing Act, the Mortgage Loan Documents, all applicable HUD mortgage insurance (and Section 8 of the Housing Act, if applicable) regulations and related administrative requirements, all applicable Ginnie Mae regulations and administration

requirements and the Ginnie Mae Documents. Bond Counsel expresses no opinion as to whether any of the covenants and requirements set forth in the Regulatory Agreement conflict with National Housing Act, the Mortgage Loan Documents, any applicable HUD mortgage insurance regulations and related administrative requirements, any applicable Ginnie Mae regulations and administration requirements, the Ginnie Mae Documents, or if applicable, Section 8 of the Housing Act. Furthermore, Bond Counsel expresses no opinion as to whether the interest on the Tax-Exempt Bonds will be excludable from gross income for federal income tax purposes in the event that Section 26 of the Regulatory Agreement precludes compliance with any other of the covenants or requirements of the Regulatory Agreement.

The scope of our engagement as Bond Counsel extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds. In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certain materials pertaining to the Bonds, including certain certified proceedings of the Issuer, the State of Texas, the Trustee, the Lender and the Borrower, and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Issuer, the State of Texas, the Trustee, the Lender, the Borrower and others. We have also examined the fully-executed Bonds numbered RA-1 and RB-1.

Based on said examination, and subject to the assumptions, qualifications and limitations set forth herein, it is our opinion that, under existing law:

1. The Issuer has duly authorized the issuance, execution and delivery of the Bonds. The Bonds constitute legal, valid and binding limited obligations of the Issuer and are entitled to the benefit and security of the Indenture.
2. Interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes except with respect to the interest on any Tax-Exempt Bond for any period during which such Tax-Exempt Bond is held by a "substantial user" of the Development or a "related person," as those terms are defined for purposes of Section 147(a) of the Code.
3. Interest on the Tax-Exempt Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals and corporations.

In providing the opinions set forth in paragraphs 2 and 3 above, we have relied on, and assumed the accuracy and completeness of, representations made as of the date hereof by, among others, the Issuer, the Borrower, the Lender and the Underwriter, with respect to matters solely within the respective knowledge of such parties, which matters we have not independently verified. Furthermore, in providing the opinions set forth in paragraphs 2 and 3 above, we have also assumed that there will be continuing compliance with the procedures, safeguards and covenants in the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Issuer or the Borrower fails to comply with the foregoing procedures, safeguards and covenants, interest on the Tax-Exempt Bonds could become includable in gross income for federal income tax purposes from the date of original delivery of the Tax-Exempt Bonds, regardless of the date on which the event causing such includability occurs.

Certain actions may be taken or omitted subject to the terms and conditions set forth in the Indenture and related documents, upon the advice or with an approving opinion of Bond Counsel. We hereby express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if

taken or omitted, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

We express no opinion as to the priority or perfection of the security interest granted by the Issuer in the Trust Estate.

The enforceability of certain provisions of the Bonds, the Bond Resolution, the Indenture and the Loan Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors. Furthermore, availability of equitable remedies under the Bonds, the Bond Resolution, the Indenture and the Loan Agreement may be limited by general principles of equity that permit the exercise of judicial discretion.

Owners of the Tax-Exempt Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits" tax on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Tax-Exempt Bonds.

The opinions set forth above speak only as of their date and only in connection with the Bonds and may not be applied to any other transaction. Such opinions are specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Tax-Exempt Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer and the Borrower have covenanted in the Indenture and Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Tax-Exempt Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

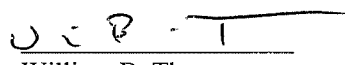
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MISCELLANEOUS

Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Issuer and the purchasers or owners of any of the Bonds.

ONE MESQUITE CREEK, L.P., a Texas limited partnership

BY: OPLP MESQUITE CREEK, INC., a Texas corporation

By: 
William B. Thorne
Vice President