

SUPPLEMENT DATED JUNE 21, 2002
to
OFFICIAL STATEMENT DATED MAY 31, 2002

\$118,000,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Single Family Mortgage Revenue Bonds

\$38,750,000 2002 Series A (AMT)
\$52,695,000 2002 Series B (AMT)
\$12,950,000 2002 Series C (AMT)
\$13,605,000 2002 Series D (Non-AMT)

The Official Statement dated May 31, 2002 (the "Official Statement") relating to the above-referenced Bonds is hereby supplemented as follows:

On the inside front cover of the Official Statement, the maturity of the Series B \$17,910,000 5.55% Term Bonds due March 1, 2034 has been amended to September 1, 2033.

In addition, on page 12 of the Official Statement, the Mandatory Sinking Fund Redemption of such Series B Bonds previously maturing March 1, 2034 amended to mature September 1, 2033 has been amended to read as follows:

Series B Bonds Maturing September 1, 2033

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
September 1, 2026	\$ 880,000	September 1, 2030	\$1,140,000
March 1, 2027	910,000	March 1, 2031	1,175,000
September 1, 2027	945,000	September 1, 2031	1,215,000
March 1, 2028	975,000	March 1, 2032	1,250,000
September 1, 2028	1,005,000	September 1, 2032	1,290,000
March 1, 2029	1,035,000	March 1, 2033	1,330,000
September 1, 2029	1,065,000	September 1, 2033	2,595,000
March 1, 2030	1,100,000		

The information in this supplement supersedes the information provided in the Official Statement in all respects to the extent of any inconsistency between this supplement and the Official Statement. The Official Statement and this supplement must be read together in connection with any decision to purchase the Offered Bonds. Capitalized terms contained in this supplement and not otherwise defined shall have the meanings ascribed thereto in the Official Statement.

The enclosed stickers should be affixed to the inside front cover and page 12 of the Official Statement, respectively.

SALOMON SMITH BARNEY

FIRST SOUTHWEST COMPANY

SIEBERT BRANDFORD SHANK & CO., LLC

M.R. BEAL & COMPANY

GOLDMAN, SACHS & CO.

OFFICIAL STATEMENT

RATINGS:

Moody's: Aaa

S & P: AAA

(See "BOND INSURANCE" and "RATINGS" herein)

Vinson & Elkins L.L.P., Bond Counsel, is of the opinion, that subject to certain conditions described herein, (i) interest on the Series 2002 Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) interest on the Series A Bonds, Series B Bonds and Series C 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 (iii) interest on the Series D Bonds is not 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. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations.

NEW ISSUES - BOOK-ENTRY ONLY

\$118,000,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS Single Family Mortgage Revenue Bonds

\$38,750,000 2002 Series A (AMT)

\$52,695,000 2002 Series B (AMT)

\$12,950,000 2002 Series C (AMT)

\$13,605,000 2002 Series D (Non-AMT)

Interest Accrues: June 1, 2002

Due: As shown on inside cover page

The Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Bonds, 2002 Series A (the "Series A Bonds"), the Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Refunding Bonds, 2002 Series B (the "Series B Bonds"), the Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Refunding Bonds, 2002 Series C (the "Series C Bonds"), and the Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Refunding Bonds, 2002 Series D (the "Series D Bonds") (the Series A Bonds, the Series B Bonds, the Series C Bonds and the Series D Bonds, collectively, the "Series 2002 Bonds") are issuable by the Texas Department of Housing and Community Affairs (the "Department") only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2002 Bonds. The Series 2002 Bonds will be available to purchasers only in book-entry form in denominations of \$5,000 or any integral multiple thereof. For as long as Cede & Co. is the exclusive registered owner of the Series 2002 Bonds, the principal of or redemption price, and interest on the Series 2002 Bonds will be payable by Bank One, National Association, in Austin, Texas, as Trustee, to DTC, which will be responsible for making such payments to DTC's Direct Participants (as defined herein), for subsequent remittance to the owners of beneficial interests in the Series 2002 Bonds. The purchasers of the Series 2002 Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 2002 BONDS - DTC and Book-Entry."



Payment of the principal of and interest on the Series 2002 Bonds will be insured by a Financial Guaranty Insurance Policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Series 2002 Bonds. See "BOND INSURANCE" herein.

The Series 2002 Bonds will accrue interest from the date shown above, until their respective maturities or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest on the Series 2002 Bonds will be payable to DTC on March 1, 2003, and semi-annually on each September 1 and March 1 thereafter until maturity or prior redemption, as more fully described on the inside cover page hereof.

THE SERIES 2002 BONDS ARE SUBJECT TO SPECIAL REDEMPTION, OPTIONAL REDEMPTION, AND MANDATORY SINKING FUND REDEMPTION ON THE DATES AND AT THE REDEMPTION PRICES, INCLUDING REDEMPTION AT PAR UNDER CERTAIN CIRCUMSTANCES, WHICH ARE MORE FULLY DESCRIBED HEREIN. See "THE SERIES 2002 BONDS — Redemption Provisions."

The Series A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "Mortgage Certificates") backed by qualifying FHA-insured, VA or RHS-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. For certain geographic and income restrictions, see "THE PROGRAM AND THE MORTGAGE LOANS." The Mortgage Certificates will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae") (the "Ginnie Mae Certificates") or the Federal National Mortgage Association ("Fannie Mae") (the "Fannie Mae Certificates"). See APPENDIX C-1 and APPENDIX C-2. The proceeds of the Series B Bonds and the Series C Bonds will be used, respectively, for the purpose of refunding and redeeming an equal amount of the Department's Residential Mortgage Revenue Bonds, Series 2001E and the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT), thereby providing additional funds with which to purchase Mortgage Certificates. The proceeds of the Series D Bonds will be deposited and applied for the purpose of refunding and redeeming all of the Department's outstanding Single Family Mortgage Revenue Refunding Bonds, 1991 Series A (the "Refunded Bonds") within ninety (90) days after the date of issuance of the Series D Bonds, for the purpose of achieving a debt service savings. The Series 2002 Bonds, the Prior Bonds (as defined herein), and, unless subordinated, all bonds subsequently issued under the Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Trust Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE."

THE SERIES 2002 BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2002 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GINNIE MAE AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

The Series 2002 Bonds are offered when, as, and if issued by the Department and received by the Underwriters. Delivery of the Series 2002 Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its Acting General Counsel, Anne O. Paddock, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their counsel, Wickliff & Hall, P.C. It is expected that the Series 2002 Bonds will be available for delivery to DTC in book-entry form only on or about June 26, 2002.

May 31, 2002

SALOMON SMITH BARNEY

FIRST SOUTHWEST COMPANY

SIEBERT BRANDFORD SHANK & CO., LLC

M.R. BEAL & COMPANY

GOLDMAN, SACHS & CO.

MATURITY SCHEDULE

\$38,750,000 Series A Bonds (AMT)

\$5,000,000 5.45% Term Bonds due March 1, 2023 Not Reoffered
\$9,160,000 5.45% Term Bonds due September 1, 2023 Price 100%
\$2,000,000 5.50% Term Bonds due September 1, 2025 Not Reoffered
\$5,800,000 5.50% Term Bonds due March 1, 2026 Price 100%
\$9,000,000 5.55% Term Bonds due September 1, 2033 Not Reoffered
\$7,790,000 5.55% Term Bonds due March 1, 2034 Price 100%

\$52,695,000 Series B Bonds (AMT)

\$34,785,000 5.35% Premium PAC Term Bonds due March 1, 2033 Price 104.60%
\$17,910,000 5.55% Term Bonds due September 1, 2033 Price 100%

\$12,950,000 Series C Bonds (AMT)

\$4,950,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
September 1, 2004	\$435,000	2.80%	2.80 %
September 1, 2005	460,000	3.30	3.30
September 1, 2006	485,000	3.60	3.60
September 1, 2007	515,000	3.90	3.90
September 1, 2008	540,000	4.20	4.20
September 1, 2009	575,000	4.40	4.40
September 1, 2010	610,000	4.60	4.60
September 1, 2011	645,000	4.70	4.70
September 1, 2012	685,000	4.80	4.80

\$8,000,000 5.20% Term Bonds due September 1, 2017 Price 100%

\$13,605,000 Series D Bonds (Non-AMT)

\$13,605,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
September 1, 2003	\$1,070,000	2.00%	2.00%
September 1, 2004	1,215,000	2.50	2.50
September 1, 2005	1,245,000	3.00	3.00
September 1, 2006	1,285,000	3.30	3.30
September 1, 2007	1,325,000	3.60	3.60
September 1, 2008	1,375,000	3.90	3.90
September 1, 2009	1,430,000	4.10	4.10
September 1, 2010	1,485,000	4.30	4.30
September 1, 2011	1,555,000	4.40	4.40
September 1, 2012	1,620,000	4.50	4.50

(Accrued Interest From June 1, 2002 to be added to all Series 2002 Bonds)

This Official Statement does not constitute, and is not to be used in connection with, an offer to sell or the solicitation of an offer to buy the Series 2002 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth in this Official Statement has been obtained from the Department and other sources which are believed to be reliable. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under such document shall, under any circumstances, create any implications that there has been no change in the affairs of the Department or other matters described herein since the date hereof.

The Trustee assumes no responsibility for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2002 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2002 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED HEREIN, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

Relating to

\$118,000,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Single Family Mortgage Revenue Bonds

\$38,750,000 2002 Series A (AMT)
\$52,695,000 2002 Series B (AMT)
\$12,950,000 2002 Series C (AMT)
\$13,605,000 2002 Series D (Non-AMT)

INTRODUCTION

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its \$38,750,000 Single Family Mortgage Revenue Bonds, 2002 Series A (the "Series A Bonds"), \$52,695,000 Single Family Mortgage Revenue Refunding Bonds, 2002 Series B (the "Series B Bonds"), \$12,950,000 Single Family Mortgage Revenue Refunding Bonds, 2002 Series C (the "Series C Bonds"), and \$13,605,000 Single Family Mortgage Revenue Refunding Bonds, 2002 Series D (the "Series D Bonds"). The Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds are referred to collectively herein as the "Series 2002 Bonds." Capitalized terms used but not otherwise defined herein shall have the respective meanings for such terms as set forth in "APPENDIX A - GLOSSARY".

The Department, a public and official governmental agency of the State of Texas (the "State"), was created and organized pursuant to and in accordance with the provisions of Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, collectively, the "Act"), among other things, to finance sanitary, decent and safe housing for individuals and families of low and very low income and families of moderate income. The Department is the successor agency to the Texas Housing Agency (the "Agency") and the Texas Department of Community Affairs (the "TDCA"), both of which were abolished by the Act and all functions and obligations of which were transferred to the Department pursuant to the Act. Under the Act, the Department may issue bonds, notes and other obligations to finance or refinance residential housing and multi-family developments located in the State of Texas and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. See "THE DEPARTMENT."

The Series 2002 Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on May 9, 2002 (the "Board Resolution"), a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980 (as amended and supplemented from time to time, collectively, the "Trust Indenture") between the Agency or the Department, as the case may be, and The Fort Worth National Bank or its successor, Bank One, National Association, as trustee (the "Trustee"), and a Thirty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Second Supplemental Indenture") between the Department and the Trustee with respect to the Series A Bonds, a Thirty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Third Supplemental Indenture") between the Department and the Trustee with respect to the Series B Bonds, a Thirty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Fourth Supplemental Indenture") between the Department and the Trustee with respect to the Series C Bonds, and a Thirty-Fifth

Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Fifth Supplemental Indenture") between the Department and the Trustee with respect to the Series D Bonds, each dated as of June 1, 2002 (collectively, the "Series 2002 Supplemental Indentures"). The Trust Indenture authorizes the Department to issue bonds to provide funds to acquire or refinance single family mortgage loans or participations therein ("Mortgage Loans") which are made to eligible borrowers, as determined from time to time by the Department, to refund Outstanding Bonds issued under the Trust Indenture, and to pay costs associated therewith. The Department has previously issued twenty-seven prior series of single family mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which \$399,810,000 in aggregate principal amount was Outstanding as of February 28, 2002. See "SECURITY FOR THE BONDS -- The Single Family Mortgage Revenue Bonds." The Series 2002 Bonds, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the "Bonds" or the "Single Family Mortgage Revenue Bonds") are equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Trust Indenture. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Anticipated Additional Bonds" and "SECURITY FOR THE BONDS - Prior Series of Junior Lien Bonds."

In addition to the Single Family Mortgage Revenue Bonds, the Department has previously issued two series of Junior Lien Bonds (as defined herein), of which \$8,147,037 in aggregate principal amount was outstanding as of February 28, 2002. On March 27, 2002, the Department issued \$10,000,000 Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A. The Junior Lien Bonds are limited obligations of the Department and are payable solely from revenues (as defined in the Junior Lien Trust Indenture) and funds pledged for the payment thereof on a basis which is junior and subordinate to the Bonds. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Prior Series of Junior Lien Bonds."

The Series A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates (the "2002 Mortgage Certificates") guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae") or the Federal National Mortgage Association ("Fannie Mae") which represent beneficial ownership of pools of Mortgage Loans (the "2002 Mortgage Loans"), for funding capitalized interest, and for paying a portion of the costs of issuance of the Series 2002 Bonds. The 2002 Mortgage Certificates together with the mortgage pass-through certificates acquired with proceeds of the Prior Bonds or Bonds subsequently issued pursuant to the Trust Indenture are referred, respectively, to herein as the "Mortgage Certificates." The Series B Bonds and the Series C Bonds are being issued to refund and redeem an equal amount of the Department's Residential Mortgage Revenue Bonds, Series 2001E (the "Refunded RMRBs") and the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT) (the "Refunded Notes"), thereby making additional funds available to purchase 2002 Mortgage Certificates. The Series D Bonds are being issued to provide funds which, together with certain available funds of the Department, will be used to refund and redeem all of the Department's Single Family Mortgage Revenue Refunding Bonds, 1991 Series A (the "Refunded Bonds") for the purpose of achieving debt service savings. Twenty percent (20%) of the lendable funds made available through the issuance of the Series A Bonds and the Series B Bonds will be set aside for at least one year for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. In addition, fifty percent (50%) of the lendable funds made available through the issuance of the Series A Bonds and Series B Bonds and seventy percent (70%) of the lendable funds made available through the issuance of the Series C Bonds will be reserved for a period of three months to make Mortgage Loans on a regional basis (based upon relative populations) for the eleven uniform state service regions into which the State is divided. Finally, thirty percent (30%) of the lendable funds made available through the issuance of the Series A Bonds, Series B Bonds and Series C Bonds will be reserved for a period of one year (or such longer period as determined by the Department) to make Mortgage Loans to individuals and families of very low income (not exceeding 60% of applicable median family income). In connection with the Program, the Department expects to make available to eligible borrowers down payment and closing costs assistance in an amount up to 4% of the principal amount of the Mortgage Loan. Such assistance is expected

to be available for approximately 40% of the total Program allocation. Such assistance will be available to borrowers of very low income (60% of AMFI - see APPENDIX H) wherever located. See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, - Regional Reservation, - Very Low Income Reservation, and Down Payment and Closing Costs Assistance" and "ASSUMPTIONS AND RISKS - Non-Origination of Mortgage Loans."

The Bonds are payable solely from and are secured by a pledge of and lien on the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), Investment Securities, moneys held in the Funds (excluding the Rebate Account) and other property pledged under the Trust Indenture (collectively, the "Trust Estate"). All payments with respect to principal of and interest on Mortgage Loans (net of servicers' fees) and on Mortgage Certificates (net of servicing and guaranty fees) received by the Department and the earnings on investments of Funds and Accounts held pursuant to the Trust Indenture constitute Revenues. The pledge of and lien on the Trust Estate is subject to discharge if moneys or qualified securities sufficient to provide for the payment of all Outstanding Bonds are deposited and held in trust for such payment. See "SECURITY FOR THE BONDS - Prior Series of Single Family Mortgage Revenue Bonds."

The Series 2002 Bonds are on a parity in all respects with all outstanding Prior Bonds and, unless subordinated, any bonds subsequently issued. The Mortgage Loans securing the Bonds must be (i) in an amount not greater than 80% of the lesser of (a) the appraised value of the mortgaged property or (b) the sales price of the mortgaged property, or (ii) insured by the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs (formerly, the Veterans Administration) ("VA") or (iii) insured by a private mortgage insurance company which has been approved by the Department in the amount by which the Mortgage Loan exceeds 80% of the value of the mortgaged property. The Trust Indenture also permits the acquisition of Mortgage Loans guaranteed by another agency or instrumentality of the United States exercising powers similar to FHA or VA, such as the United States Department of Agriculture Rural Housing Services ("RHS"). In connection with each prior series of Prior Bonds, the Department either obtained a mortgage pool insurance policy in an amount at least equal to 10% of the initial aggregate amount of Mortgage Loans purchased or provided for a mortgage pool self-insurance reserve or used proceeds to acquire Mortgage Certificates. As of February 28, 2002, of the \$91,472,475 Mortgage Loans (excluding Mortgage Certificates representing Mortgage Loans) held under the Trust Indenture, according to principal amount, \$43,032,973 were Conventional Mortgage Loans, \$45,610,829 were FHA-insured Mortgage Loans, and \$2,828,673 were VA-guaranteed Mortgage Loans. Each Eligible Borrower is required to maintain standard hazard insurance coverage and, if applicable, flood insurance.

The Trust Indenture establishes a Debt Service Reserve Account (the "Debt Service Reserve Account") within the Debt Service Fund. The Trust Indenture requires that the Debt Service Reserve Account be maintained in an amount at least equal to three percent (3%) of the aggregate principal amount of the Mortgage Loans outstanding and 0% for Mortgage Loans represented by Mortgage Certificates from time to time (the "Debt Service Reserve Account Requirement"). Moneys in the Debt Service Reserve Account will be made available in the event that there are insufficient funds on deposit in the other accounts of the Debt Service Fund and the Mortgage Loan Fund, respectively, to pay, when due, principal of and interest on the Series 2002 Bonds or any other Outstanding Bonds. As of February 28, 2002, the Debt Service Reserve Account Requirement for the Single Family Mortgage Revenue Bonds was \$2,554,648 and \$4,800,343 was on deposit in the Debt Service Reserve Account. The amount of excess reserves is attributable to the implementation of the Twentieth (20th) Supplement to the Trust Indenture which decreased the required amount of reserves. The Department anticipates using a portion of such excess reserves to redeem outstanding Prior Bonds and to finance mortgage loans or participations therein. Because the Mortgage Loans to be made with proceeds of the Series 2002 Bonds are to be backed by Mortgage Certificates, no deposit to the Debt Service Reserve Account will be made in connection with the issuance of the Series 2002 Bonds. See "THE TRUST INDENTURE" herein.

THE SERIES 2002 BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PRICE, OR INTEREST ON THE SERIES 2002 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GINNIE MAE AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

There follows in this Official Statement a brief description of the plan of finance, the Department and its bond programs, together with summaries of certain terms of the Series 2002 Bonds, the Trust Indenture, and certain provisions of the Act, as well as other matters. All references herein to the Act, the Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

For information concerning the Prior Bonds, see "SECURITY FOR THE BONDS - The Prior Bonds." For information concerning the mortgage loan program financed by the Prior Bonds and information concerning other programs of the Department, see "APPENDIX F-1 - DEPARTMENT'S MORTGAGE LOAN PORTFOLIO" AND "APPENDIX F-2 - OTHER INDEBTEDNESS OF THE DEPARTMENT."

PLAN OF FINANCE

Proceeds of the Series A Bonds will be deposited to the 2002 A/B/C Mortgage Loan Account of the Mortgage Loan Fund and used to purchase Mortgage Certificates, to fund capitalized interest, and to pay a portion of the costs of issuance of the Series 2002 Bonds. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series B Bonds and the Series C Bonds are to be applied, within ninety (90) days after the date of issuance of the Series B Bonds and the Series C Bonds, to refund and redeem, respectively, an equal amount of the Refunded RMRBs and the Refunded Notes, thereby making additional funds available to be deposited into the 2002 A/B/C Mortgage Loan Account of the Mortgage Loan Fund and used to purchase 2002 Mortgage Certificates. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series D Bonds will be applied, together with certain available funds of the Department, within ninety (90) days after the date of issuance thereof, to refund and redeem the Refunded Bonds for the purpose of achieving debt service savings. Upon redemption of the Refunded Bonds, the 1991A Transferred Mortgage Loans will be transferred to the 2002 D Mortgage Loan Account.

SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 2002 Bonds (exclusive of the accrued interest on the Series 2002 Bonds which is to be deposited in the Interest Account of the Debt Service Fund) are expected to be approximately as set forth below.

Sources:

Bond Proceeds -- Series A Bonds	\$38,750,000.00
Bond Proceeds -- Series B Bonds	54,295,110.00
Bond Proceeds - - Series C Bonds	12,950,000.00
Bond Proceeds - - Series D Bonds	13,605,000.00
Master Servicer Premium	1,005,500.00
Department Contribution	<u>282,848.67</u>
Total Sources	<u>\$120,888,458.67</u>

Uses:

Deposit to 2002 A/B/C Mortgage Loan Account	\$102,150,000.00
Redemption of Refunded Bonds ⁽¹⁾	13,731,700.00
Deposit to Capitalized Interest Subaccount	3,526,963.60
Underwriters' Compensation	932,824.50
Costs of Issuance	<u>546,970.57</u>
Total Uses	<u>\$120,888,458.67</u>

⁽¹⁾ Includes redemption premium on the Refunded Bonds. Upon redemption of the Refunded Bonds, the 1991A Transferred Mortgage Loans will be transferred to the 2002 D Mortgage Loan Account. See "THE 1991A TRANSFERRED MORTGAGE LOANS."

THE SERIES 2002 BONDS

General

The Series 2002 Bonds are issuable only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as the Bond Depository for the Series 2002 Bonds. The Series 2002 Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof, as more fully described herein. The principal or Redemption Price of, and interest on the Series 2002 Bonds will be payable by the Trustee to DTC, which will be responsible for making such payments to DTC Participants (hereinafter defined) for subsequent remittance to the owners of beneficial interests in the Series 2002 Bonds or their nominees. See "THE SERIES 2002 BONDS - DTC and Book-Entry."

Maturity

The Series 2002 Bonds mature on the dates and in the amounts set forth on the inside cover hereof.

Interest

The Series 2002 Bonds will accrue interest from June 1, 2002, until maturity or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest accrued on the Series 2002 Bonds will be payable on March 1, 2003, and semiannually on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Series 2002 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Redemption Provisions

The Series 2002 Bonds are subject to optional redemption, special redemption, and mandatory sinking fund redemption at various times prior to their scheduled maturities at various redemption prices as described below. **The Department anticipates that substantially all of the Series 2002 Bonds will be redeemed prior to their scheduled maturities as the result of the receipt by the Department of amounts representing Mortgage Loan Principal Prepayments, from certain excess Revenues from the Revenue Fund, and, in certain circumstances, from Surplus Indenture Revenues.**

Special Redemption from Unexpended Proceeds

The Series A Bonds, Series B Bonds, and Series C Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities, in whole or in part, at a redemption price equal to 100% of the principal amount thereof (provided that any redemption of Series B Bonds maturing on March 1, 2033 (the "Premium PAC Term Bonds") pursuant to this provision shall be at a Redemption Price equal to 104.60% of the principal amount thereof) plus accrued interest thereon to, but not including, the date of redemption, from amounts representing lendable proceeds of the Series 2002 Bonds, if any, that are not to be used to purchase 2002 Mortgage Certificates and are transferred to the 2002 A/B/C Redemption Subaccount (provided that any amounts transferred from the 2002 Down Payment Assistance Subaccount shall be used to pay the Redemption Price of the Premium PAC Term Bonds). Such redemption shall occur as soon as practicable after receipt of the certification of the Department that such amounts will not be used to purchase 2002 Mortgage Certificates or the end of the Certificate Purchase Period, as the case may be, but in no event earlier than October 1, 2003, nor later than December 26, 2005. The Department is not required to transfer unexpended proceeds to the 2002 A/B/C Redemption Subaccount unless such proceeds exceed \$250,000. Series 2002 Bonds to be redeemed in accordance with this provision shall be selected by the Trustee pro rata among Series A Bonds, Series B Bonds and Series C Bonds unless otherwise directed pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues (as described herein under "SECURITY FOR THE BONDS -- Statement of Projected Revenues").

Special Redemption From Mortgage Loan Principal Prepayments

The Series 2002 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time on or after March 1, 2003, after giving notice as provided in the Trust Indenture, at a redemption price equal to 100% of the principal amount of the Series 2002 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts representing Mortgage Loan Principal Prepayments that have been transferred, in the case of the Series A Bonds, Series B Bonds, and Series C Bonds, to the 2002 A/B/C Redemption Subaccount and, in the case of Series D Bonds, to the Series D Redemption Subaccount, all in accordance with the Trust Indenture.

Mortgage Loan Principal Prepayments Relating to 2002 Mortgage Certificates. In the event of a redemption pursuant to this provision from Mortgage Loan Principal Prepayments relating to the 2002

Mortgage Certificates, the Trustee shall select the particular Series A Bonds, Series B Bonds, and Series C Bonds to be redeemed as follows:

(a) the Trustee shall redeem the Premium PAC Term Bonds, but only to the extent that the Outstanding principal amount of such Premium PAC Term Bonds following such redemption is not less than the Premium PAC Term Bonds Outstanding Applicable Amount as of such date;

The Premium PAC Term Bonds Outstanding Applicable Amount is as follows:

<u>Date</u>	<u>Premium PAC Term Bonds Outstanding Applicable Amount</u>
Issuance Date	\$34,785,000
March 1, 2003	34,765,000
September 1, 2003	34,515,000
March 1, 2004	33,850,000
September 1, 2004	32,535,000
March 1, 2005	30,385,000
September 1, 2005	28,285,000
March 1, 2006	25,640,000
September 1, 2006	23,425,000
March 1, 2007	20,935,000
September 1, 2007	18,865,000
March 1, 2008	16,550,000
September 1, 2008	14,615,000
March 1, 2009	12,480,000
September 1, 2009	10,680,000
March 1, 2010	8,730,000
September 1, 2010	7,060,000
March 1, 2011	5,300,000
September 1, 2011	3,765,000
March 1, 2012	2,200,000
September 1, 2012	790,000
March 1, 2013	0

(b) amounts remaining following the redemptions specified in clause (a) above shall be applied, unless otherwise directed by a Letter of Instructions accompanied by a Statement of Projected Revenues, to the redemption of the Series A Bonds, Series B Bonds (excluding the Premium PAC Term Bonds), and Series C Bonds which would produce, as nearly as practicable, a pro rata redemption of the Series A Bonds, the Series B Bonds (excluding the Premium PAC Term Bonds) and the Series C Bonds to the extent that the Series 2002 A/B/C Cumulative Prepayments as of such date do not exceed the Series 2002 A/B/C Cumulative Applicable Amount as of such date; and

(c) amounts remaining following the redemptions specified in clauses (a) and (b) above shall be applied, unless otherwise directed by a Letter of Instructions accompanied by a Statement of Projected Revenues, to the redemption of those maturities of the Series A Bonds, the Series B Bonds and the Series C Bonds which would produce, as nearly as practicable, a pro rata redemption of all of the Series A Bonds, the Series B Bonds, and the Series C Bonds taking into account the amounts applied to redeem the Series A Bonds, the Series B Bonds and the Series C Bonds pursuant to the above-described redemptions.

Any special redemption of the Series A Bonds, the Series B Bonds and the Series C Bonds pursuant to the "Special Redemption from Unexpended Proceeds" described above will reduce the Premium PAC Term Bonds Outstanding Applicable Amount and the Series 2002 A/B/C Cumulative Applicable Amount described above for the current and each future semiannual period by an amount equal to the product of the amount of such redemption and a fraction the numerator of which equals the sum of the amount of moneys disbursed from the 2002 A/B/C Mortgage Loan Account to redeem Series A Bonds, Series B Bonds and Series C Bonds and the denominator of which equals the sum of the amount of moneys initially deposited by the Trustee in the 2002 A/B/C Mortgage Loan Account for the purchase of 2002 Mortgage Certificates.

Mortgage Loan Principal Prepayments Relating to 1991A Transferred Mortgage Loans. In the event of a redemption pursuant to this provision from Mortgage Loan Principal Prepayments relating to the 1991A Transferred Mortgage Loans, the Trustee shall, unless otherwise directed by a Letter of Instructions accompanied by a Statement of Projected Revenues, redeem all Series D Bonds Outstanding on a pro rata basis among maturities.

Redemption Amounts and Prepayment Standard

The amounts shown in the table above for Premium PAC Term Bonds Outstanding Applicable Amount and the amounts for Series 2002 A/B/C Cumulative Applicable Amount are based on the assumptions of (i) receipt of prepayments on the 2002 Mortgage Loans equal to 75 percent of the Bond Market Association's (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans (as further described below) (the "BMA Prepayment Model") in the case of Premium PAC Term Bonds Outstanding Applicable Amount and 300 percent of the BMA Prepayment Model in the case of the Series 2002 A/B/C Cumulative Applicable Amount"; and (ii) that 100 percent of the moneys on deposit in the 2002 A/B/C Mortgage Loan Account attributable to the proceeds of the Series 2002 Bonds, will be used to purchase 2002 Mortgage Certificates. Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The BMA Prepayment Model for 30-year mortgage bonds represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. The BMA Prepayment Model does not purport to be either an historical description of the prepayment of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the 2002 Mortgage Certificates. One hundred percent of the BMA Prepayment Model assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans, 100 percent of the BMA Prepayment Model assumes a constant prepayment rate of six percent per year. Multiples will be calculated from this prepayment rate speed e.g., 200 percent of the BMA Prepayment Model assumes prepayment rates will be 0.4 percent per year on month one, 0.8 percent per year in month two, reaching 12 percent per year in month 30 and remaining constant at 12 percent per year thereafter.

Special Redemption From Excess Revenues

The Series 2002 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time on or after March 1, 2003, after giving notice as provided in the Trust Indenture, at a redemption price equal to 100% of the principal amount of the Series 2002 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from excess Revenues (including Surplus Indenture Revenues derived in connection with the Series 2002 Bonds).

In general, excess Revenues (including Surplus Indenture Revenues derived in connection with the Series 2002 Bonds) will consist of funds remaining on each Interest Payment Date, in the case of the Series A Bonds, Series B Bonds and Series C Bonds, in the 2002 A/B/C Revenue Account of the Revenue Fund and,

in the case of the Series D Bonds, in the 2002 D Revenue Account of the Revenue Fund, in each case after taking into account (1) the provision for payment of Debt Service on the applicable Series 2002 Bonds on such Interest Payment Date, (2) the required transfers of amounts to the Series A/B/C Subaccount or the Series D Subaccount, as applicable, of the Redemption Account, (3) the amounts, if any, required to fund the Debt Service Reserve Account on such Interest Payment Date, and (4) the payment of Department Expenses in accordance with the Trust Indenture.

In the event of a redemption of Series A Bonds, Series B Bonds, and Series C Bonds from excess Revenues, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues, the Trustee shall redeem all Series A Bonds, Series B Bonds, and Series C Bonds Outstanding on a pro rata basis (provided however that the Premium PAC Term Bonds shall not be redeemed in an amount that would cause the Outstanding amount of the Premium PAC Term Bonds to be less than Premium PAC Term Bonds Outstanding Applicable Amount unless Series 2002 A/B/C Cumulative Prepayments as of such date exceed the Series 2002 A/B/C Cumulative Applicable Amount as of such date). In the event of a redemption of Series D Bonds from excess Revenues, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues, the Trustee shall redeem all Series D Bonds Outstanding on a pro rata basis among maturities.

Special Redemption from Surplus Indenture Revenues

The Series 2002 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time after March 1, 2003, after giving notice as provided in the Trust Indenture, at a redemption price equal to 100% of the Series 2002 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from Surplus Indenture Revenues (not derived in connection with the Series 2002 Bonds).

In the event of a redemption of Series A Bonds, Series B Bonds, and Series C Bonds from Surplus Indenture Revenues, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues, the Trustee shall redeem all Series A Bonds, Series B Bonds, and Series C Bonds Outstanding on a pro rata basis (provided however that the Premium PAC Term Bonds shall not be redeemed in an amount that would cause the Outstanding amount of the Premium PAC Term Bonds to be less than Premium PAC Term Bonds Outstanding Applicable Amount unless Series 2002 A/B/C Cumulative Prepayments as of such date exceed the Series 2002 A/B/C Cumulative Applicable Amount as of such date). In the event of a redemption of Series D Bonds from Surplus Indenture Revenues, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues, the Trustee shall redeem all Series D Bonds Outstanding on a pro rata basis among maturities.

Optional Redemption

The Series 2002 Bonds, other than the Premium PAC Term Bonds, are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after March 1, 2012, at the option of the Department, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to the principal amount of Series 2002 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date.

The Premium PAC Term Bonds are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on or after March 1, 2012, at the option of the Department after giving notice as provided in the Indenture, at the Redemption Price set forth below (expressed as a percentage of the Principal

Amount of the Premium PAC Term Bonds or portions thereof to be redeemed), plus accrued interest to the redemption date, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2012 through February 28, 2013	101%
March 1, 2013 and thereafter	100

Mandatory Sinking Fund Redemption

The Series 2002 Bonds maturing on the dates specified below are subject to scheduled mandatory redemption prior to maturity in the principal amounts and on the dates set forth in the following tables, at a redemption price equal to 100% of the principal amount of Series 2002 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

SERIES A BONDS

Series A Bonds Maturing March 1, 2023

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2018	\$ 320,000	March 1, 2021	\$ 380,000
September 1, 2018	325,000	September 1, 2021	395,000
March 1, 2019	335,000	March 1, 2022	410,000
September 1, 2019	350,000	September 1, 2022	420,000
March 1, 2020	360,000	March 1, 2023	1,335,000
September 1, 2020	370,000		

Series A Bonds Maturing September 1, 2023

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2018	\$ 670,000	March 1, 2021	\$ 810,000
September 1, 2018	695,000	September 1, 2021	835,000
March 1, 2019	715,000	March 1, 2022	860,000
September 1, 2019	740,000	September 1, 2022	885,000
March 1, 2020	760,000	March 1, 2023	10,000
September 1, 2020	785,000	September 1, 2023	1,395,000

Series A Bonds Maturing September 1, 2025

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2024	\$130,000	March 1, 2025	\$ 140,000
September 1, 2024	135,000	September 1, 2025	1,595,000

Series A Bonds Maturing March 1, 2026

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2024	\$1,330,000	September 1, 2025	\$ 10,000
September 1, 2024	1,380,000	March 1, 2026	1,660,000
March 1, 2025	1,420,000		

Series A Bonds Maturing September 1, 2033

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
September 1, 2026	\$420,000	September 1, 2030	\$ 530,000
March 1, 2027	430,000	March 1, 2031	550,000
September 1, 2027	440,000	September 1, 2031	570,000
March 1, 2028	455,000	March 1, 2032	585,000
September 1, 2028	470,000	September 1, 2032	605,000
March 1, 2029	485,000	March 1, 2033	625,000
September 1, 2029	505,000	September 1, 2033	1,810,000
March 1, 2030	520,000		

Series A Bonds Maturing March 1, 2034

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
September 1, 2026	\$415,000	September 1, 2030	\$530,000
March 1, 2027	425,000	March 1, 2031	550,000
September 1, 2027	440,000	September 1, 2031	565,000
March 1, 2028	455,000	March 1, 2032	585,000
September 1, 2028	470,000	September 1, 2032	605,000
March 1, 2029	485,000	March 1, 2033	620,000
September 1, 2029	500,000	September 1, 2033	10,000
March 1, 2030	515,000	March 1, 2034	620,000

SERIES B BONDS

Series B Premium PAC Term Bonds Maturing March 1, 2033

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
September 1, 2004	\$215,000	March 1, 2019	\$ 465,000
March 1, 2005	665,000	September 1, 2019	475,000
September 1, 2005	225,000	March 1, 2020	495,000
March 1, 2006	700,000	September 1, 2020	510,000
September 1, 2006	240,000	March 1, 2021	525,000
March 1, 2007	740,000	September 1, 2021	540,000
September 1, 2007	250,000	March 1, 2022	555,000
March 1, 2008	785,000	September 1, 2022	580,000
September 1, 2008	270,000	March 1, 2023	600,000
March 1, 2009	830,000	September 1, 2023	610,000
September 1, 2009	285,000	March 1, 2024	605,000
March 1, 2010	880,000	September 1, 2024	620,000
September 1, 2010	300,000	March 1, 2025	640,000
March 1, 2011	935,000	September 1, 2025	665,000
September 1, 2011	320,000	March 1, 2026	685,000
March 1, 2012	995,000	September 1, 2026	705,000
September 1, 2012	340,000	March 1, 2027	730,000
March 1, 2013	360,000	September 1, 2027	750,000
September 1, 2013	375,000	March 1, 2028	775,000
March 1, 2014	380,000	September 1, 2028	800,000
September 1, 2014	390,000	March 1, 2029	825,000
March 1, 2015	405,000	September 1, 2029	850,000
September 1, 2015	415,000	March 1, 2030	880,000
March 1, 2016	430,000	September 1, 2030	910,000
September 1, 2016	450,000	March 1, 2031	935,000
March 1, 2017	460,000	September 1, 2031	965,000
September 1, 2017	470,000	March 1, 2032	1,000,000
March 1, 2018	435,000	September 1, 2032	1,030,000
September 1, 2018	450,000	March 1, 2033	1,065,000

Series B Bonds Maturing September 1, 2033

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
September 1, 2026	\$ 880,000	September 1, 2030	\$1,140,000
March 1, 2027	910,000	March 1, 2031	1,175,000
September 1, 2027	945,000	September 1, 2031	1,215,000
March 1, 2028	975,000	March 1, 2032	1,250,000
September 1, 2028	1,005,000	September 1, 2032	1,290,000
March 1, 2029	1,035,000	March 1, 2033	1,330,000
September 1, 2029	1,065,000	September 1, 2033	2,595,000
March 1, 2030	1,100,000		

SERIES C BONDS

Series C Bonds Maturing September 1, 2017

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2013	\$695,000	September 1, 2015	\$810,000
September 1, 2013	715,000	March 1, 2016	835,000
March 1, 2014	740,000	September 1, 2016	855,000
September 1, 2014	765,000	March 1, 2017	885,000
March 1, 2015	785,000	September 1, 2017	915,000

The principal amount of the Series 2002 Bonds to be redeemed on each such redemption date pursuant to mandatory sinking fund redemption shall be reduced by the principal amount of any Series 2002 Bonds of the same Series and having the same stated maturity, which (A) at least 45 days prior to mandatory sinking fund redemption date, (1) shall have been acquired by the Department and delivered to the Trustee for cancellation, or (2) shall have been acquired and canceled by the Trustee at the direction of the Department, or (3) shall have been redeemed other than pursuant to mandatory sinking fund redemption, and (B) shall have not been previously credited against a scheduled mandatory sinking fund redemption.

Selection of Series 2002 Bonds to be Redeemed

Subject to the requirements set forth above regarding special redemption of the Series 2002 Bonds, the particular Series 2002 Bonds or portions thereof to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its sole discretion may deem fair and appropriate. Any Series 2002 Bonds redeemed in part shall be redeemed in an amount such that the unredeemed portion thereof shall equal an Authorized Denomination, and, in selecting Series 2002 Bonds for redemption, the Trustee shall treat each Series 2002 Bond in a denomination greater than the minimum Authorized Denomination as representing that number of Series 2002 Bonds of the minimum Authorized Denomination which is obtained by dividing the principal amount at maturity of such Series 2002 Bonds by the minimum Authorized Denomination.

Notice of Redemption

The Trustee shall give notice, in the name of the Department, of the redemption of Series 2002 Bonds to the holders thereof, which notice shall specify the series and maturities of the Series 2002 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2002 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2002 Bonds so to be redeemed, and, in the case of Series 2002 Bonds to be redeemed in part only, such notices shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2002 Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof, in the case of Series 2002 Bonds to be redeemed in part only, together with interest accrued to but not including the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice by first class mail, postage prepaid, not less than 30 days prior to the redemption date, to the holders of any Series 2002 Bonds or portions thereof which are to be redeemed, at their last addresses, if any, appearing upon the registry books of the Trustee. The Trustee's obligation to give such notice shall not be conditioned upon the prior payment to the Trustee of funds sufficient to pay the Redemption Price on the Series 2002 Bonds to which such notice relates or interest thereon to the redemption date.

Payment of Redeemed Bonds

Notice having been given as provided in the Trust Indenture, the Series 2002 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. Upon presentation and surrender thereof at the office specified in such notice, such Series 2002 Bonds or portions thereof shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Series 2002 Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 2002 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 2002 Bond so surrendered, registered Series 2002 Bonds of like series and maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of all the Series 2002 Bonds or portions thereof of any like series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as specified in the Trust Indenture, then from and after the redemption date interest on the Series 2002 Bonds or portions thereof of such series and maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 2002 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Purchase in Lieu of Redemption

The Trust Indenture permits the purchase of Bonds, including the Series 2002 Bonds, in the open market in lieu of redemption of Bonds. Any such purchase may be at a price not exceeding the then current redemption price for such Bonds.

DTC and Book-Entry

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2002 Bonds. The Series 2002 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 each maturity of the Series 2002 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York

Stock Exchange, Inc., the American Stock Exchange LLC, 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.

Purchases of Series 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2002 Bond ("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 interests in the Series 2002 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 Series 2002 Bonds, except in the event that use of the book-entry system for the Series 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002 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 Series 2002 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 Series 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 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 Series 2002 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2002 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2002 Bonds may wish to ascertain that the nominee holding the Series 2002 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 Series 2002 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 Series 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department 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 Series 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2002 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 the Department or the Trustee, on the 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 Series 2002 Bonds 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 Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2002 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Department, the Trustee or the Underwriters.

FOR AS LONG AS CEDE & CO IS THE REGISTERED OWNER OF THE SERIES 2002 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 2002 BONDS SHALL MEAN CEDE & CO AND SHALL NOT MEAN THE BENEFICIAL OWNERS, EXCEPT AS DESCRIBED HEREIN.

NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSON FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 2002 BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2002 BONDS FOR REDEMPTION.

Discontinuation of Book-Entry-Only System

In the event that the book-entry-only system is discontinued by DTC or the Department, the following provisions will be applicable to the Series 2002 Bonds. Series 2002 Bonds may be exchanged for an equal aggregate principal amount of Series 2002 Bonds in other Authorized Denominations of the same series and maturity and interest rate upon surrender thereof at the applicable corporate trust office of the Trustee with a duly executed assignment in form satisfactory to the Trustee. The transfer of any Series 2002 Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2002 Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2002 Bonds, the Department and the Trustee may make a charge sufficient to reimburse them for any tax, fee, or other governmental charge required to be paid with respect to such exchange or registration of transfer, as well as the fee, if any, charged by the Trustee for the transfer or exchange. The Trustee will not be required to transfer or exchange any Series 2002 Bond for a period of 20 days next preceding an interest payment date on such Series 2002 Bonds or next preceding any selection of Series 2002 Bonds to be redeemed or thereafter until after mailing of any notice of redemption on any Series

2002 Bonds called for redemption, or transfer or exchange any Series 2002 Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 2002 Bond is registered as the absolute owner thereof for all purposes, whether such Series 2002 Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Series 2002 Bond. If any Series 2002 Bond is not presented for payment when the principal or the Redemption Price therefor becomes due, and if moneys sufficient to pay such Series 2002 Bond (or the portion thereof called for redemption) or such interest, as is applicable, have been deposited under the Trust Indenture, all liability of the Department to the owner thereof for the payment of such Series 2002 Bonds (or portion thereof) or such interest, as applicable, will be discharged, and thereupon it shall be the duty of the Trustee to hold such money for the benefit of the owner of the applicable Series 2002 Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Trust Indenture or on or with respect to, such principal, Redemption Price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), in accordance with Title 6, Texas Property Code.

SECURITY FOR THE BONDS

Pledge of Trust Indenture

The Bonds, including the Series 2002 Bonds, are equally and ratably secured by the Trust Indenture for the equal benefit, protection and security of the owners of the Bonds, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Trust Indenture.

Principal or Redemption Price of and interest on all Bonds are payable solely from and are secured by a pledge of and lien on the Trust Estate, which consists generally of the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), money and Investment Securities held in the Funds, and other property pledged under the Trust Indenture and any supplemental indenture. Revenues include all payments with respect to the Mortgage Loans (net of servicing, accounting and collection fees) which include Mortgage Certificates (net of servicing and guaranty fees) and the earnings on investments of amounts held under the Trust Indenture and any supplemental indenture. Revenues do not include payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans (including Mortgage Certificates), and any payments required to be made with respect to Mortgage Loans (including Mortgage Certificates) for taxes, other governmental charges, and other similar charges customarily required to be escrowed on mortgage loans or commitment fees or other financing charges paid by a Mortgage Lender or the Servicer to the Department in connection with a commitment to sell and deliver Mortgage Loans (including Mortgage Certificates) to the Department.

All Bonds issued under the Trust Indenture are also equally and ratably secured by amounts in the Debt Service Reserve Account of the Debt Service Fund. See "THE TRUST INDENTURE -- Debt Service Reserve Account." The Trust Indenture requires that the Debt Service Reserve Account be funded in the amount sufficient to cause the Account to be maintained at a level at least equal to three percent (3%) of the aggregate principal amount of Mortgage Loans outstanding (0% for Mortgage Loans represented by Mortgage Certificates) from time to time. As of February 28, 2002, the Debt Service Reserve Requirement for the Bonds was \$2,554,648. As of such date, \$4,800,343 was on deposit in the Debt Service Reserve Account. The amount of excess reserves is attributable to the implementation of the Twentieth Supplemental Indenture which decreased the required amount of reserves. The Department anticipates using a portion of such excess reserves to redeem outstanding Prior Bonds and to finance mortgage loans or participations therein. Because the Mortgage Loans to be made with proceeds of the Series 2002 Bonds are to be represented by Mortgage

Certificates, no deposit to the Debt Service Reserve Account will be made in connection with the issuance of the Series 2002 Bonds.

The Department has covenanted in the Trust Indenture to enforce diligently, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans, including the prompt payment of all Mortgage Loan interest and principal payments and all other amounts due the Department thereunder, the enforcement of any insurance policy or guaranty relating to a Mortgage Loan, and the foreclosure of Mortgages or enforcement of security interests for defaulting Mortgage Loans. The Department has further covenanted not to release the obligation of any borrower under any Mortgage Loan, except upon the execution of a valid and enforceable assumption agreement as permitted by the Trust Indenture, and at all times, to the extent permitted by law, to defend, enforce, preserve and protect the rights and privileges of the Department and of the Bondholders under or with respect to each Mortgage Loan. The Department reserves the right to settle a default on any Mortgage Loan on such terms as the Department shall determine to be in the best interests of the Department and the Bondholders and to forebear from taking action with respect to enforcement of a Mortgage Loan, if it determines such forbearance to be in the best interest of the Department and the Bondholders. The Department has the right under the Trust Indenture to refinance any Mortgage Loan if it will not affect the tax-exempt status of interest on the Series 2002 Bonds.

The Series 2002 Bonds are limited obligations of the Department. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, including Ginnie Mae, nor Fannie Mae, is obligated to pay the principal or Redemption Price or interest on the Series 2002 Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power. Ginnie Mae and Fannie Mae guarantee only the payment of the principal of and interest on the Ginnie Mae Certificates and Fannie Mae Certificates, respectively, when due and do not guarantee the payment of the Series 2002 Bonds or any other obligations issued by the Department.

The Prior Bonds

In addition to the Series 2002 Bonds to be issued, twenty-seven series of the Department's Single Family Mortgage Revenue Bonds have been issued pursuant to the Trust Indenture, and to the extent Outstanding are secured on an equal and ratable basis by the Trust Estate established by the Trust Indenture. As of February 28, 2002, thirteen series of such Prior Bonds were Outstanding in an aggregate principal amount of \$399,810,000. For more detailed information concerning the original principal amounts and Outstanding amounts of the Prior Bonds, please refer to "APPENDIX F-1 - DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

Prior Series of Junior Lien Bonds

In addition to the Single Family Mortgage Revenue Bonds, the Department has issued \$100,995,932 in original principal amount of its Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A, Taxable Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994B, and Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A (collectively, the "Junior Lien Bonds") pursuant to the Junior Lien Trust Indenture. For additional information on the Junior Lien Bonds, see "APPENDIX F-1 -- DEPARTMENT'S MORTGAGE LOAN PORTFOLIO -- Junior Lien Trust Indenture". The Junior Lien Bonds are limited obligations of the Department and are payable solely from the Revenues (as defined in the Junior Lien Trust Indenture) and funds pledged for the payment thereof on a basis which is

junior and subordinate to the pledge securing the Bonds outstanding under the Trust Indenture. The primary source of revenue under the Junior Lien Trust Indenture is Surplus Indenture Revenues. Revenues under the Trust Indenture only become Surplus Indenture Revenues available to be released to pay Debt Service on the Junior Lien Bonds to the extent such revenues are, on any March 1 or September 1 or other date on which such Debt Service is payable, in excess of 100% of (i) all Debt Service on the Bonds, (ii) amounts required to fund reserves for the Bonds, and (iii) all expenses of the Department in administering the programs related to the Bonds. See "THE TRUST INDENTURE -- Revenue Fund." As of February 28, 2002, the aggregate outstanding principal amount of the Junior Lien Bonds was \$8,147,037, which amount does not include the \$10,000,000 Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A, issued by the Department on March 27, 2002.

Prior Mortgage Loans and Mortgage Certificates

The proceeds of certain Prior Bonds and certain other moneys have been used to purchase Mortgage Loans (including Mortgage Certificates representing Mortgage Loans). All Mortgage Loans acquired to date under the Trust Indenture are fixed rate loans for terms not exceeding 30 years. As of February 28, 2002, the Outstanding amount of Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds was \$368,267,789. For a more detailed examination of the Mortgage Loans, the portfolio of Mortgage Loans (including Mortgage Certificates representing Mortgage Loans), delinquent Mortgage Loans and information regarding Mortgage Loan Insurance, please refer to "APPENDIX F-1 - DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

Since the inception of the Department's Program, the Department has foreclosed on approximately 3,035 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of \$156,376,882. As of February 28, 2002, the Department continues to hold title to property securing 4 of such Mortgage Loans aggregating \$125,097. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has entered into a contract with outside contractors to manage, maintain and arrange for sales, in conjunction with real estate brokers, of such real estate owned. See "APPENDIX F-1 -- DEPARTMENT'S MORTGAGE LOAN PORTFOLIO" for information concerning the Department's current delinquency and foreclosure rates with respect to the Mortgage Loans.

1991A Transferred Mortgage Loans

Upon delivery of the Series D Bonds for the purpose of refunding the Refunded Bonds, all the 1991A Transferred Mortgage Loans will be transferred to the 2002 D Mortgage Loan Account.

As of February 28, 2002, the outstanding principal amount of the 1991A Transferred Mortgage Loans was \$16,237,345. Substantially all of the Mortgage Loans bearing interest at a rate of 11.20% and constituting 1991A Transferred Mortgage Loans were acquired between December 1980, and November 1981, and had original terms of thirty years. The original aggregate principal amount of such Mortgage Loans was \$135,128,160. Special Mortgage Loans constituting 1991A Transferred Mortgage Loans were acquired beginning in 1991 through the present and had original terms of thirty years. The following table reflects information with respect to the 1991A Transferred Mortgage Loans as of February 28, 2002:

	<u>Outstanding Principal</u>	<u>Mortgage Rate</u>	<u>Weighted Average Remaining Term (in months)</u>
Mortgage Loans	\$6,792,990	11.20%	108 months
Special Mortgage Loans	\$9,444,355	0%	284 months

Certain Information as to Revenues, Investments, Debt Service and Department Expenses

On the basis of the Statement of Projected Revenues prepared in connection with the issuance of the Series 2002 Bonds, as discussed below, the Department expects that the scheduled payments, together with prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or Redemption Price of and interest on the Series 2002 Bonds and all other Bonds outstanding when due. In arriving at the foregoing conclusions, the Department has included all Prior Bonds but has not considered the issuance of other additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture will rank equally and ratably with the Series 2002 Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds. See "Anticipated Additional Bonds."

Investment of Funds

Moneys in all Funds other than the Debt Service Fund (except for the Debt Service Reserve Account therein) will be invested pursuant to the Depository Agreement with the Texas Treasury Safekeeping Trust Company in Investment Securities. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY." Moneys held or invested in all Funds and Accounts under the Trust Indenture are for the equal and ratable benefit of all owners of the Bonds.

For information concerning the investment of Funds relating to the Prior Bonds, see APPENDIX G - INVESTMENT OF FUNDS RELATING TO PRIOR BONDS."

Moneys in the 2002 A/B/C Mortgage Loan Account of the Mortgage Loan Fund will be invested pursuant to an investment agreement (the "Mortgage Loan Fund Investment Agreement") among the Department, the Trustee, the Texas Treasury Safekeeping Trust Company (the "Depository") and Bayerische Landesbank Girozentrale (the "Mortgage Loan Fund Investment Agreement Provider"), at an interest rate of 2.56% per annum until October 1, 2003. Moneys in the 2002 A/B/C Account of the Revenue Fund and the 2002 A/B/C Redemption Subaccount of the Debt Service Fund will be invested pursuant to an investment agreement (the "Series A/B/C Float Fund Investment Agreement") with CDC Funding Corp. (the "Float Fund Investment Agreement Provider") at an interest rate of 5.01% per annum until March 1, 2034.

Moneys in the 2002D Account of the Revenue Fund and the 2002D Redemption Subaccount of the Debt Service Fund will be invested pursuant to an investment agreement (the "Series D Float Fund Investment Agreement") (the Mortgage Loan Fund Investment Agreement, the Series A/B/C Float Fund Investment Agreement and the Series D Float Fund Investment Agreement, collectively, the "Investment Agreements"), among the Department the Trustee, the Depository and the Float Fund Investment Agreement Provider (the Mortgage Loan Fund Investment Agreement Provider and the Float Fund Investment Agreement Provider, collectively, the "Investment Agreement Providers"), at an interest rate of 4.51% per annum until September 1, 2012.

The Investment Agreements evidence the obligations of the respective Investment Agreement Providers to pay principal of and interest on such moneys to the Trustee at certain times for use in accordance with the Indenture. The Investment Agreements are obligations solely of the respective Investment Agreement Providers. The Investment Agreements give the Department no interest in or control over investments made by the respective Investment Agreement Providers. There can be no assurance that the Investment Agreement Providers will be able to pay principal of and interest on such moneys at such rates on a timely basis.

The Department has adopted an investment policy (the "Investment Policy") which applies to all financial assets of the Department. The Investment Policy's objectives, in the order of priority, are as follows: (1) safety of principal, (2) sufficient liquidity to meet Department cashflow needs, (3) achievement of a market rate of return on investments, and (4) conformance with all applicable State statutes, particularly the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. With respect to bond proceeds, the Investment Policy provides that such proceeds should be invested in accordance with the applicable law, in particular the Public Funds Investment Act and as permitted by the applicable trust indenture.

Statement of Projected Revenues

The Department is required to prepare periodically a statement comparing estimates of Revenues with the Debt Service requirements and estimated Department Expenses with respect to outstanding Bonds (the "Statement of Projected Revenues"). This Statement of Projected Revenues is required to be prepared as a condition to the issuance of Bonds and annually within 180 days after each August 31. A Statement of Projected Revenues is also required to be prepared semiannually at any time that unexpended Bond proceeds remain on deposit in the Mortgage Loan Fund to the extent reasonably necessary to reflect the actual application of amounts therein, the expiration or other termination or alteration of any commitment for the acquisition or refinancing of Mortgage Loans or any revised estimates with respect thereto.

The Department has covenanted that during such time as it is not meeting the Asset Test (as described herein under "THE TRUST INDENTURE - Revenue Fund"), the Department may only direct the Trustee (i) to transfer Surplus Indenture Revenues to the Mortgage Loan Fund or the Redemption Account of the Debt Service Fund; (ii) to invest the Surplus Indenture Revenues in Investment Securities; or (iii) if the Department shall have on file with the Trustee a Statement of Projected Revenues, projecting that Revenues to the extent deemed available or to be available to pay Department Expenses and aggregate Debt Service will be sufficient to pay Department Expenses and aggregate Debt Service when due in the then current and each succeeding Bond Year and as of the date of such Statement of Projected Revenues, the Department Assets are at least equal to 100% of the aggregate principal amount of Bonds then Outstanding, then Surplus Indenture Revenues shall be used to pay principal, interest and redemption price on Junior Lien Bonds and to establish and maintain reserves or other funds and accounts as provided in the indenture or indentures authorizing such Junior Lien Bonds.

At the end of any Bond Year, if the Department meets the Asset Test, the Department may apply any Surplus Indenture Revenues (in excess of those required to be maintained under the Trust Indenture in order to permit the Department to continue to meet the Asset Test):

- (i) to the trustee under the Junior Lien Trust Indenture to be used to originate Mortgage Loans, to reimburse a bond insurer or credit provider for amounts provided under a bond insurance policy or other credit support or to originate junior lien mortgage loans;
- (ii) as provided in the next preceding paragraph;

(iii) (a) subject to the provisions of the Trust Indenture or any Supplemental Indenture to the redemption of Bonds; (b) to the payment of any Department Expenses; (c) to the establishment of reserves therefor, free and clear of the pledge and lien of the Trust Indenture; or (d) to the purchase of Bonds; and

(iv) any other purpose or payment now or hereafter authorized or required by the Act free and clear of the pledge and lien of the Trust Indenture;

provided, however, that no such amounts may be applied in any way which would result in less than 90% of all amounts received by the Department with respect to the Mortgage Loans being used for the following purposes: (v) to pay the principal or Redemption Price of or interest on or purchase or otherwise to service the Bonds; (w) to reimburse the Department for Department Expenses, or to pay, for costs of issuance; (x) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to the Program; (y) to acquire Mortgage Loans or other loans or mortgages financing residential real property in the State; and (z) to redeem or retire obligations of the Department.

Mortgage Insurance

The Trust Indenture requires that all Mortgage Loans must be secured by Mortgages, subject to certain permitted encumbrances, on one-to-four family residences located in the State. Mortgage Loans must (i) be federally insured or guaranteed, (ii) have a principal balance not exceeding 80% of the lower of the appraised value or the purchase price of the property securing the Mortgage Loan (the "Value"), or (iii) be insured by a private mortgage insurer in an amount by which the loan exceeds 80% of the Value.

Mortgage Pool Insurance

The Indenture imposes no requirement for mortgage pool insurance upon the Series 2002 Bonds or additional Bonds issued in the future. The Trust Indenture does require that, for Bonds issued prior to November 14, 1996, the Department use its best reasonable efforts to maintain a mortgage pool insurance policy in an amount at least equal to 10% of the initial aggregate principal amount of Mortgage Loans acquired with the proceeds of all series of Bonds issued prior to November 14, 1996. Due to the fact that the cost of mortgage pool insurance was, at the time, prohibitively expensive, the Department established a mortgage pool self-insurance program in connection with its 1986 Series A Bonds, 1986 Series B Bonds, and 1987 Series B Bonds. Similarly, the Department was unable to obtain mortgage pool insurance at commercially reasonable rates for Mortgage Loans to be provided with proceeds of the Series 1995 Bonds and Series 1996 Bonds. Instead, such Mortgage Loans have been included in Mortgage Certificates. Information concerning mortgage insurance and guaranty programs, including the Department's mortgage pool self-insurance program, and the extent of the coverage provided thereby is contained in "APPENDIX B -- SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS."

Additional Bonds

Various series of Bonds, including refunding Bonds, may be issued as provided in the Trust Indenture on a parity with the Bonds of all other series, secured by a pledge of and lien on the Trust Estate. As a condition to the issuance of additional Bonds, including refunding Bonds, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the series of Bonds is legally issued in accordance with the Trust Indenture and the Act. The Department must also deliver a Statement of Projected Revenues which gives effect to the issuance of such additional Bonds, including refunding Bonds, and demonstrates that (i) the estimated Revenues and any other revenues, investment income or moneys reasonably estimated by the Department to be available for the payment of aggregate Debt Service

for all Outstanding Bonds when due will be sufficient to pay the aggregate Debt Service for all Outstanding Bonds and (ii) the remaining balance of the scheduled and estimated Revenues and other revenues, investment income or moneys reasonably estimated by the Department to be available to pay budgeted or estimated Department Expenses allocable by the Department to the Bonds, the Trust Indenture and the Department's programs under the Trust Indenture will be sufficient to pay such budgeted or estimated Department Expenses. No additional parity Bonds may be issued unless, upon the issuance of such Bonds, the amounts credited to the Debt Service Reserve Account will be sufficient to maintain its requirements. The Department has reserved the right to adopt one or more additional general bond indentures and to issue other obligations, such as the Junior Lien Bonds, payable from sources other than the Trust Estate and has also reserved the right to issue obligations payable from the Trust Estate, including the Revenues, if the pledge of and lien on the Trust Estate and the Revenues is junior to or subordinate to the pledge of and lien on the Trust Estate and the Revenues to the Bonds.

Sale of 2002 Mortgage Certificates

The Department may sell the 2002 Mortgage Certificates in whole or in part only upon delivery by the Department of (i) an opinion of Bond Counsel that such sale will not cause all or any portion of the 2002 Mortgage Certificates, or the Series 2002 Bonds to be classified as a "taxable mortgage pool" within the meaning of Section 7701(i) of the Code and the applicable Treasury Regulations promulgated thereunder; and (ii) written confirmation from each Rating Agency that such sale will not adversely affect the then current ratings on the Bonds (determined without regard to any financial guaranty policy with respect to the Series 2002 Bonds). If proceeds from the sale of 2002 Mortgage Certificates are to be applied to the redemption of Series 2002 Bonds, such Series 2002 Bonds must be redeemed under the applicable optional redemption provision.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to APPENDIX I for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Department to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2002 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2002 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2002 Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii)

any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Series 2002 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal or interest on the Series 2002 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 2002 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Series 2002 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2002 Bonds or presentment of such other proof of ownership of the Series 2002 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2002 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2002 Bonds in any legal proceeding related to payment of insured amounts on the Series 2002 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Series 2002 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding MBIA's policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2002 Bonds or the advisability of investing in the Series 2002 Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Financial Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2002 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2002, the Insurer had admitted assets of \$8.6 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$2.9 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2002 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2002 Bonds. MBIA does not guaranty the market price of the Series 2002 Bonds nor does it guaranty that the ratings on the Series 2002 Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event MBIA is unable to fulfill its contractual obligation under the policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

ASSUMPTIONS AND RISKS

Assumptions

On the basis of the Cashflow Statement prepared in connection with the issuance of the Series 2002 Bonds, the Department expects that the scheduled payments, together with Mortgage Loan Principal Prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or redemption price of and interest on the Series 2002 Bonds and all other Prior Bonds Outstanding when due. In arriving at the foregoing conclusions, the Department has included all Bonds but has not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture, unless subordinated, will rank equally and ratably with the Series 2002 Bonds and the Prior Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds.

The maturities and mandatory sinking fund installments of the Series 2002 Bonds have been established on the basis of the consolidated scheduled payments of the Mortgage Loans (including Mortgage Certificates) under the Trust Indenture. The interest rates on the Mortgage Loans acquired with moneys made available upon the issuance of the Series 2002 Bonds will be established so that payments of principal of and interest on the Mortgage Loans and the Mortgage Certificates outstanding under the Trust Indenture, and moneys on deposit in the various funds and accounts under the Trust Indenture (as well as income derived from investments thereof) are expected to generate sufficient revenues to pay on a timely basis the principal of and interest on all Bonds outstanding under the Trust Indenture, including the Series 2002 Bonds, and certain other amounts required to be paid under the Trust Indenture, on the basis of, among others, the following assumptions:

- (a) the investment of moneys held in the Mortgage Loan Fund, the Revenue Fund, the Debt Service Fund (including the Principal Account, Interest Account, the Debt Service Reserve Account and the Redemption Account), and the Expense Fund at the rates per annum applicable to each (a portion of the earnings from which may be subject to rebate to the United States Department of Treasury), and the making of timely payments to the Trustee of amounts due under such investments;
- (b) the payments on the Mortgage Loans (including the Mortgage Certificates) will be made in full substantially on a timely basis;
- (c) the Mortgage Lenders and the Master Servicer will perform their duties in a timely manner;
- (d) all future expenses with respect to the Series 2002 Bonds and administering and servicing the Mortgage Loans, including the Trustee's fees and payment of Department's Expenses, will

be paid in full on a timely basis from interest paid on the Mortgage Loans and the Mortgage Certificates and investment income on funds held by the Trustee with respect to the Mortgage Loans;

(e) Series 2002 Bond proceeds and certain other amounts held under the Trust Indenture will be sufficient to pay the Underwriters' fees with respect to the Series 2002 Bonds and the other costs of issuing the Series 2002 Bonds; and

(f) the 2002 Mortgage Loans will have a term of thirty (30) years and will provide for payment of principal and interest in approximately equal monthly installments.

The Department makes no assurances that the foregoing assumptions can be realized. In particular, the Department establishes the interest rates on the Mortgage Loans on an ongoing basis as the Department deems necessary and appropriate. Interest rates are determined by reference to conventional mortgage rates, availability or mortgage funding alternatives, historical interest rate patterns and the Department's cost of funds.

Termination of Mortgage Loans and Mortgage Certificates

Mortgage Loans and Mortgage Certificates may be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments, default, sale, condemnation, casualty loss or noncompliance with the Program. All Mortgage Loan Principal Prepayments or other payments in respect of early termination will be deposited in the Revenue Fund and transferred to the Principal Account or the Redemption Account of the Debt Service Fund for use to redeem Bonds in accordance with the Trust Indenture. **Accordingly, the Department anticipates that substantially all of the Series 2002 Bonds will be redeemed prior to their scheduled maturities.**

Federal Guarantee Limits

The dollar amount of commitments to guarantee securities that Ginnie Mae can approve and the dollar amount that FHA and VA can insure or guarantee in any federal fiscal year is limited by statute and administrative procedures. If an appropriation act is not passed in any federal fiscal year or if Ginnie Mae, FHA or VA reach the limits of their respective authority, or if Ginnie Mae, in its sole discretion, or the federal government alters or amends the Ginnie Mae Mortgage-Backed Securities Program in such a way as to prevent the Mortgage Lenders from originating Mortgage Loans during the origination period and the Servicer from issuing Ginnie Mae Certificates prior to the acquisition date therefor, the Mortgage Lenders may be unable to originate Mortgage Loans and the Servicer may be unable to issue Ginnie Mae Certificates in the anticipated aggregate principal amount. **The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee in amounts contemplated by this financing would result in the early redemption of the Series 2002 Bonds prior to their maturity.** See "THE SERIES 2002 BONDS - Redemption Provisions."

Non-Origination of Mortgage Loans

One of the principal factors in originating mortgage loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Department has determined that there is a shortage of funds in the State to make such loans at interest rates and on terms that a substantial number of potential borrowers within the State can afford. Should mortgage interest rate levels decline, or should one or more alternative governmental programs become available at below market rates, mortgage loans could become available at rates competitive with or lower than the rate specified for the Mortgage Loans, and the total amount of Mortgage Loans anticipated to be originated under the Program may not be so originated.

In addition, there exists a risk of non-origination resulting from the reservation for a period of one year of 20% of the lendable proceeds of the Series A Bonds and the Series B Bonds for Mortgage Loans in certain federally designated targeted areas, the reservation for a period of three months of 50% of the lendable proceeds of the Series A Bonds and the Series B Bonds and 70% of the lendable funds made available through the issuance of the Series C Bonds for the purpose of making Mortgage Loans on a regional basis within the State, and the reservation for a period of one year (or such longer period as determined by the Department) of 30% of the lendable funds made available through the issuance of the Series 2002 Bonds for persons of families of very low income (not exceeding 60% of the applicable area median family income). See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, - Regional Reservation and - Very Low Income Reservation." As a result, the pool of potential mortgagors will be limited for such period and economic conditions or conventional mortgage rates may have adversely changed by the end of the set aside period.

The Department is currently purchasing mortgage certificates with the proceeds of its Residential Mortgage Revenue Bonds pursuant to two separate programs. Mortgage certificates purchased with the proceeds of its Residential Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of April 1, 2002:

<u>Active Program</u>	<u>Program Start Date</u>	<u>Mortgage Rate</u>	<u>Mortgage Funds Available</u>	<u>Amounts Purchased</u>	<u>Reservation Amounts⁽¹⁾</u>	<u>Remaining Funds</u>
Program 56	11/15/00	6.60	\$124,915,000	\$62,749,044	\$17,476,450	\$44,689,506
Program 57	11/05/01	5.45/5.95	<u>60,844,000</u>	<u>15,531,396</u>	<u>38,908,949</u>	<u>6,403,655</u>
Total			<u>\$185,759,000</u>	<u>\$78,280,440</u>	<u>\$56,385,399</u>	<u>\$51,093,161</u>

⁽¹⁾ There are no assurances that any of the reservations by mortgage lenders for mortgage loans pending but not closed will ultimately result in the purchase of mortgage certificates.

The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee, in the amounts contemplated by this financing will result in redemption of the Series 2002 Bonds prior to their maturity. See "THE SERIES 2002 BONDS - Redemption Provisions."

Availability of Remedies

The remedies available to the owners of the Series 2002 Bonds upon an Event of Default under the Trust Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy laws, the Trust Indenture and the various Program Documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2002 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity which permit the exercise of judicial discretion.

THE DEPARTMENT

General

The Department, 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 Department is the successor agency to the Agency and the TDCA, both of which were abolished by the Act and their functions and obligations transferred to the Department. One of the purposes of the Department 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 Department may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department.

The Department 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 commenced in 1999 and resulted in passage of legislation in the 2001 session of the Texas Legislature which continues the Department in existence until September 1, 2003. The next regular session of the Texas Legislature does not convene until January, 2003. Therefore, unless continued by legislation adopted at such session or at a specially called legislative session, the Department will be abolished effective September 1, 2003. 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 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 Series 2002A Bonds) that the State will not limit or alter the rights vested in the Department 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 Department 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 of the State designates a member of the Board to serve as Chairman of the Board at the pleasure of the Governor. The Chairman 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 Vice Chairman to perform the duties of the Chairman when the Chairman 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 must 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:

MICHAEL E. JONES, Chair and Board Member. Attorney, Potter, Minton, Roberts, Davis & Jones, P.C., Tyler, Texas. His term expires January 31, 2003.

C. KENT CONINE, Vice Chair and Board Member. President, Conine Residential Group, Frisco, Texas. His term expires January 31, 2003.

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

VIDAL GONZALEZ, Board Member. Executive Vice President, South Texas National Bank, Del Rio, Texas. His term expires January 31, 2005.

NORBERTO SALINAS, Board Member. Mayor, City of Mission, Mission, Texas and President, S&F Developers and Builders. His term expires January 31, 2007.

ELIZABETH ANDERSON, Board Member. Vice President, Service Applications International Corporation, Dallas, Texas. Her term expires January 31, 2007.

All of the above Board members have been appointed by the Governor and confirmation of each such Board member is required to be considered by the State Senate at its next session, whether regular or special. One position currently remains vacant.

Administrative Personnel

The Act provides that the Department 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 Department and its personnel. The Executive Director may employ other employees necessary for the discharge of the duties of the Department, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Department's bonds.

Currently, the Department has 313 employees with 22 being employed in the Department's Housing Finance Division, the division with primary responsibility for the administration of, among other things, bond-financed single family and multi-family programs. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

EDWINA P. CARRINGTON, Executive Director. Ms. Carrington joined the Department as Executive Director on March 11, 2002, having served as Multifamily Manager, Programs Manager, and Multifamily Compliance Officer for the Agency from August 1985 to June 1990. In such positions, Ms. Carrington's duties included management of single family loan purchase programs, multifamily housing development financing programs, mortgage credit certificate programs, the low-income tax credit program, and preparation of annual operating budgets for the programs area. Upon leaving the Agency in 1990, Ms. Carrington became the manager of the Austin Housing Finance Corporation in which she was responsible for the operations of the City of Austin Housing Assistance Fund, tax exempt bond portfolio, affordable housing programs and long range

housing planning. Immediately prior to being employed as Executive Director of the Department, Ms. Carrington was the Chief Executive Officer of Texas Housing Finance Corporation, a 501(c)(3) organization created to assist development of affordable housing through a series of tax credit equity funds, a position she has held since April 1994. Prior to originally joining the Agency in 1985, Ms. Carrington has been a vice president for property management for multifamily projects, seminar leader for the National Association of Housing and Development Officials, regional director for the Dallas Center of Management, and housing community development director for the Ark-Tex Council of Governments. Ms. Carrington has a B.S. degree from Tennessee Technological University, earned a Masters in public administration from Texas A & M University, Texarkana and is a Certified Commercial Investment Manager (CCIM). Ms. Carrington is a member of numerous housing organizations, including as having served as President of the Texas Association of Local Housing Finance Agencies, Texas Affiliation of Affordable Housing Providers, and the National Association of State and Local Equity Funds, as well as serving as board member of the Association of Local Housing Finance Agencies.

BYRON V. JOHNSON, Director of Bond Finance. Mr. Johnson joined the Department on July 19, 1999 as Director of Bond Finance. In this position, he is responsible for the development and administration of the Department's Single Family and Multifamily Mortgage Revenue Bond programs and the Department's Commercial Paper Program. Mr. Johnson also oversees ongoing compliance monitoring and disclosure requirements related to the Department's bond programs. Before joining the Department, Mr. Johnson was a Vice President in the public finance department of a regional investment bank. Prior to joining the regional investment bank, Mr. Johnson was employed as an Assistant Vice President by a minority-owned investment bank specializing in public finance in the Southeast. Mr. Johnson began his career in the securities industry in 1984 as a compliance examiner with the National Association of Securities Dealers where he conducted financial and operational examinations of NASD member firms. He subsequently was employed by Kidder, Peabody & Co. as a staff auditor and later worked as a senior auditor in the Corporate Audit Department at Shearson Lehman Brothers. Mr. Johnson earned an M.B.A. from the Fuqua School of Business at Duke University in 1993 and a Bachelor of Business Administration degree in Accounting from Savannah State University in 1984.

BILL DALLY, Chief Financial Officer. Mr. Dally joined the Department's Internal Audit staff in May 1994. On May 1, 1999, Mr. Dally was promoted to the position of Chief Financial Officer after serving as the Department's Controller since January 1996. Mr. Dally is responsible for the Department's management of fiscal affairs, including budgets and financial reporting. He shares responsibility with Byron Johnson, Director of Bond Finance, for the management and reporting of the Department's Investment Portfolio. 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 Department, Mr. Dally was a Senior Auditor with the firm of KPMG Peat Marwick and worked primarily with governmental entities.

PAM MORRIS, Housing Finance Programs Director. Ms. Morris joined the Department on August 20, 1998. She is responsible for the development and administration of the Department's Single Family Bond Programs, Loan Servicing and Marketing sections. Ms. Morris is a career mortgage banker with over ten years of residential and commercial mortgage lending experience. She is an active member of the Mortgage Bankers Association.

ANNE O. PADDOCK, Acting General Counsel. Ms. Paddock has been employed by the Department in various legal capacities since 1991. On April 2, 2002, she accepted the title of Acting General Counsel for the Department. Prior to joining the Department, Ms. Paddock was an attorney in private practice from 1978 until 1981 when she joined the TDCA, a predecessor to the Department. In 1998, she left the TDCA and joined the legal staff of the Texas Department of Commerce on which she served until joining the Department. Ms.

Paddock received her B.A. in Government from the University of Texas and her J.D. from the University of Texas School of Law.

The offices of the Department are located at 507 Sabine, Suite 800, Austin, Texas 78701, and the telephone number for the Housing Finance Division of the Department is 512/475-3800.

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 57A

The Department has established a Single Family Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). The component of the program relating to the Series 2002 Bonds will be designated as the Department's Bond Program No. 57A ("Program 57A"). In connection with the issuance of the Series 2002 Bonds and the Single Family Mortgage Revenue Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or participations therein) originated by commercial banks, savings and loan associations, mortgage companies, non-profit corporations, and other qualified financial institutions (the "Mortgage Lenders"). As a result of the issuance of the Series 2002 Bonds, the Trustee on behalf of the Department has agreed to purchase 2002 Mortgage Certificates.

Mortgage Loans evidenced by the 2002 Mortgage Certificates will bear interest at the rates established upon the issuance of the Series 2002 Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Trust Indenture. The purchase price for the 2002 Mortgage Certificates will be 103.025% of par (plus accrued interest) for Ginnie Mae Certificates and 103.525% of par (plus accrued interest) for Fannie Mae Certificates with respect to Assisted Mortgage Loans, 103.750% of par (plus accrued interest) with respect to Fannie Mae Expanded Approval Loans, Level I, and 104.000% of par (plus accrued interest) for Fannie Mae Expanded Approval Loans, Level II, and will be 99.025% of par (plus accrued interest) for Ginnie Mae Certificates and 99.525% of par (plus accrued interest) for Fannie Mae Certificates with respect to Non-Assisted Mortgage Loans. The Department will purchase the 2002 Mortgage Certificates during a Certificate Purchase Period which will expire on October 1, 2003, but which may be extended to a date no later than November 1, 2005, upon compliance with the terms of the Series 2002 Series Supplements. The Department expects to originate approximately \$1,150,000 of 0% Mortgage Loans in connection with Program 57A.

General

The guidelines adopted by the Department from time to time in connection with the Program establish the eligibility of lenders to participate in the Program, time limitations with respect to commitments for and originations of Mortgage Loans, the types of Mortgage Loans eligible for purchase by the Servicer, the eligibility of mortgagors, the requirements for dwellings which secure Mortgage Loans, the fees which a Mortgage Lender may charge to originate a Mortgage Loan, the fees which a lending institution may charge for servicing a Mortgage Loan, as well as other aspects of the Program. In connection with each phase of the Program, the Department executed or will execute origination, sale and servicing agreements or mortgage origination agreements and program supplements (collectively, the "Agreement") with the respective Mortgage Lenders. The Agreement obligated or will obligate the Mortgage Lenders to use their best efforts to originate and sell to the Department Mortgage Loans in conformity with the guidelines. Each Mortgage Loan was or will be reviewed prior to acquisition by the Compliance Agent designated by the Department for compliance with applicable provisions of the Program as set forth in the guidelines and with applicable provisions of federal income tax laws. The procedures set forth in the Agreement are established by the Department after consideration of standards and requirements customary in the secondary mortgage market. The Department

anticipates that it may revise its procedures from time to time to conform with changes in the procedures followed by Fannie Mae, RHS, Ginnie Mae, VA or other major secondary mortgage market institutions.

Mortgage Lender Reservations - First- Come, First-Served

No funds made available through Program 57A will be allocated to any specific Mortgage Lenders. Rather, all of such funds will be made available to Mortgage Lenders on a controlled first-come, first-served basis.

Down Payment and Closing Costs Assistance ("DPA")

In connection with the use of Program 57A funds to finance Mortgage Loans to eligible borrowers, down payment and closing costs assistance will be available on a first-come, first-served basis, to very low income (60% of AMFI - see APPENDIX H) borrowers wherever located. Down payment and closing costs assistance is required to be applied first to payment of closing costs and then to the borrower's down payment with respect to the Mortgage Loan. The maximum amount of down payment and closing costs assistance available will be 4% of the amount of the Mortgage Loan and no second lien will be required. The Department estimates that sufficient down payment and closing costs assistance funds will be available for approximately 40% of the total Program allocation.

Targeted Area Reservation

For the first twelve months of Program 57A (commencing on the date proceeds are first made available to finance Mortgage Loans, which is anticipated to be July 1, 2002), 20% of the lendable funds made available through the issuance of the Series A Bonds and the Series B Bonds will be required to be reserved for Mortgage Loans made in certain targeted areas. See "TAX MATTERS -- Federal Income Tax Requirements -- Targeted Area Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a Mortgage Loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 2002 Mortgage Certificates representing any Mortgage Loans made to eligible borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than 2 percent of the amounts available to make mortgage loans have been used to originate mortgage loans in such targeted areas. However, in its most recent programs, approximately 7 to 13 % of amounts available have been used to originate mortgage loans in such targeted areas.

Regional Reservation

For the first three months of Program 57A, the Department is requiring that 50% of the funds made available through the issuance of the Series A Bonds and the Series B Bonds and 70% of the funds made available through the issuance of the Series C Bonds be reserved to make Mortgage Loans on a regional basis within the eleven uniform state service regions into which the State is divided. The allocation among regions will be based upon relative populations of such regions and the Department's lending experiences in particular regions. After such three month period at the option of the Department, all funds will be available on a statewide basis.

Very Low Income Reservation

For the first one year period of Program 57A (or such longer period as determined by the Department), the Department is requiring that 30% of the funds made available through the issuance of the Series A Bonds, the Series B Bonds, and the Series C Bonds will be set aside for Mortgage Loans for individuals and families of very low income (not exceeding 60% of applicable median family income). See "APPENDIX H - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS." After such one-year period, Mortgage Lenders may make Mortgage Loans to any eligible borrowers and the Trustee may use any remaining reserved funds to purchase 2002 Mortgage Certificates representing Mortgage Loans made to any eligible borrowers.

Fannie Mae Expanded Approval Mortgage Loan Products

The Department anticipates making available \$10,000,000 for Fannie Mae Expanded Approval Mortgage Loans. Typical borrowers qualifying for Fannie Mae Expanded Approval Mortgage Loans will include consumers who may possibly pay more than fair market value for the credit quality associated with their loan. Also, the Department will make available Fannie Mae Expanded Approval Mortgage Loans for Borrowers with minimal funds for a down payment or closing costs who may have had minor credit problems in the past. The Department will only offer "Level I" and "Level II" Fannie Mae Expanded Approval Mortgage Loans. Lenders will underwrite all Fannie Mae Expanded Approval mortgage loans using Fannie Mae's Desktop Underwriter automated underwriting software. All Fannie Mae Expanded Approval Mortgage Loans will be pooled by the Master Servicer into Fannie Mae Certificates.

Community Home Buyer's Program

Pursuant to Fannie Mae requirements, in connection with Program 57A, Mortgage Lenders will make available to all first time homebuyers participating in Program 57A whose Mortgage Loans are backed by Fannie Mae Certificates a comprehensive educational program known as the Community Home Buyer's Program (the "Community Home Buyer's Program"). The Community Home Buyer's Program provides more flexible loan underwriting than otherwise may be available. To qualify for the Community Home Buyer's Program, the mortgagor must first participate in home loan counseling seminars which will be made available on an on-going basis throughout Program 57A. The seminars cover: (1) how to purchase a home; (2) budgeting; (3) evaluating the mortgagor's current ability to repay a mortgage; (4) homeownership planning; (5) loan closing; (6) home maintenance; and (7) avoiding a default.

Eligible Borrowers

Each Mortgage Loan is required to be made to a person whose family income does not exceed the income limits established by the Department from time to time. In addition, to be eligible for a Mortgage Loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such Mortgage Loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans, certain exception loans hereinafter described, and certain homes falling into the Contract for Deed Exception, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the Mortgage; and (iii) who has not had an existing mortgage on the residence (other than a mortgage falling into the Contract for Deed Exception) to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than certain permitted temporary financing mortgages. The Department, subject to the requirements of applicable provisions of federal income tax law and applicable regulations, may approve a limited number of exception loans that do not satisfy the requirement described in clause (ii) in the immediately preceding sentence. In addition to the above

requirement, thirty percent (30%) of the funds made available through Program 57A will be restricted for approximately one year from the beginning of Program 57A (or such longer period as determined by the Department) for individuals and families of very low income (60% of applicable median family income). See "Very Low Income Reservation" above and "APPENDIX I - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Property

Each residence financed with a Mortgage Loan must consist of real property and improvements permanently affixed thereon which is located within the State of Texas. Each residence must be a single-family, owner-occupied attached or detached structure, a single-family condominium unit or a single unit in a planned unit development ("PUD") or a single unit in a qualifying duplex, triplex or four-plex. Each residence financed with a Mortgage Loan must have an acquisition cost (the "Maximum Acquisition Cost") not exceeding certain acquisition cost limits established by the Department from time to time. See "APPENDIX I - APPLICABLE MEDIAN FAMILY INCOME AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Mortgage Loans

Each Mortgage Loan, or participation therein, acquired by the Department under the Program is required by the Trust Indenture to be a Conventional Mortgage Loan, an FHA Mortgage Loan, a VA Mortgage Loan, or a Mortgage Loan insured or guaranteed by another agency or instrumentality of the United States of America exercising powers similar to the FHA or VA, such as RHS, and must have met the following requirements at the date of purchase thereof:

(a) Each Mortgage Loan must be secured by a first mortgage lien on a one-to-four family residence, subject only to those encumbrances which are permitted under the Fannie Mae FHA/VA Mortgage Selling Contract Supplement, the Fannie Mae Conventional Home Mortgage Selling Contract Supplement, the FHLMC Seller's Guide Conventional Mortgages, or the FHLMC Seller's Guide FHA/VA or similar guide from a successor agency;

(b) Each Mortgage Loan must: (i) be insured or guaranteed by FHA, VA or another similar agency or instrumentality of the United States of America or the State, or (ii) have (or have had at the time it was made) a principal balance not exceeding 80% of the value of the property securing the Mortgage Loan, or (iii) be insured by a private insurance company in the amount by which the loan exceeds 80% of the value of the property;

(c) Each Mortgage Loan or participation therein must comply in all respects with the guidelines of the Department pertaining thereto;

(d) Each Mortgage Loan must be covered by a valid and subsisting title insurance policy, the benefits of which run to the Department, in an amount at least equal to the outstanding principal balance of the Mortgage Loan and the improvements on the real property securing each Mortgage Loan must be fully covered by a hazard insurance policy and a flood insurance policy, if in the flood plain, in such amount as the Department deems advisable;

(e) Each Mortgage Loan must have a term not exceeding 30 years, must provide for substantially equal payments of principal and interest due on the first day of each month, and must be subject to prepayment at any time without penalty; and

(f) Each Mortgage Loan must be assumable only with the prior approval of the Department and FHA/VA, if applicable, and then only if all requirements relating to the tax exemption of interest on the Bonds are met and upon payment of certain assumption fees.

The Department is not permitted under the Trust Indenture to sell, assign, transfer or otherwise dispose of any Mortgage Loan or any of the rights of the Department with respect to any Mortgage Loan unless the Department determines that such action is in the best interests of the Department and the Bondholders and will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds, in which case such Mortgage Loan may be so disposed of by the Department free and clear of the pledge of the Trust Indenture. See "SECURITY FOR THE BONDS -- Sale of 2002 Mortgage Certificates."

The Department shall not consent or agree to or permit any amendment or modification of any Mortgage Loan which will in any manner materially impair or materially adversely affect the rights or security of the Bondholders under the Trust Indenture in such Mortgage Loan except for amendments and modifications made in connection with settling any default on any Mortgage Loan which settlement the Department determines to be in the best interests of the Department and the Bondholders or with a refinancing of a Mortgage Loan.

Compliance with Tax Law and Program Guidelines

Each Mortgage Lender was required or will be required to follow certain procedures in the origination of Mortgage Loans to insure compliance with the mortgage eligibility requirements of applicable federal income tax laws and other requirements applicable to the Mortgage Loans. These procedures will include, but may not be limited to, the following: (i) obtaining affidavits of the borrower and seller and certificates of the real estate agent, if any, providing and certifying certain information regarding borrower income, home acquisition cost, and other loan information; (ii) reviewing the contents of the affidavits and certificates with the persons executing them prior to the execution thereof; (iii) except in the case of certain targeted area loans or certain other exception loans, obtaining signed or certified copies of the borrower's federal income tax returns for the preceding three years to verify that the borrower did not claim deductions for taxes or interest on indebtedness with respect to real property constituting his or her principal residence or a borrower's affidavit that he or she was not required to file such a return during one or more of the preceding three years; (iv) performing such additional investigations as may be appropriate under the circumstances to verify that the requirements of applicable federal income tax laws are satisfied as of the date of the execution of the Mortgage; (v) reviewing the draft settlement statement to assure that all fees and charges and settlement and financing costs comply with the applicable requirements; (vi) preparing, executing, and delivering a certificate relating to compliance with the requirements set forth immediately above; and (vii) carrying out such additional verification procedures as may be reasonably requested by the Department, its designated compliance agent, or the Trustee. If any Mortgage Loan fails to meet the guidelines established by the Department, the originating Mortgage Lender will be required to correct such failure within a reasonable time after such failure is discovered by either repurchasing the non-qualifying Mortgage Loan in full or by replacing the non-qualifying Mortgage Loan with a Mortgage Loan which meets the applicable requirements.

Compliance Agent

The Master Servicer will act as Compliance Agent for Program 57A to review and examine, or cause to be reviewed and examined, certain documents submitted by each Mortgage Lender in connection with the Mortgage Loans and to make determinations with respect to compliance of such documents with requirements of the Department and the Program. Such requirements primarily relate to, among other things, compliance

with FHA, RHS, or VA requirements, as applicable, compliance with the Ginnie Mae Guide, the Fannie Mae Guide, and the applicable Program Supplement, compliance of the Mortgage Loans with the required terms thereof.

Servicing

General

In connection with Mortgage Loans made with proceeds of the Prior Bonds and not included within Mortgage Certificates, the Mortgage Lenders service the Mortgage Loans and the Department acts as an administrator, monitoring the Mortgage Lenders' activities and remittances to the Trustee. The Department maintains a schedule of anticipated receipts which each Mortgage Lender is expected to remit to the Trustee. The Mortgage Lenders report to the Department any delinquent payments and prepayments. The Department's computerized management information system reconciles Trustee receipts with Mortgage Lender reported remittances, reconciles loan amortization, monitors delinquencies and foreclosure actions, and monitors Mortgage Lender performance. Since the lendable funds made available through the issuance of the Series 2002 Bonds will be used to purchase Mortgage Certificates, the Department will not act as an administrator with respect to Mortgage Loans backed by Mortgage Certificates but will monitor the actions of the Master Servicer.

In connection with Mortgage Loans included in Mortgage Certificates, the Department has selected servicers for such Mortgage Loans. Such servicers are referred to herein individually as "Master Servicer" and collectively, as "Master Servicers." The Department has selected Countrywide Home Loans, Inc. ("Countrywide") to act as the Master Servicer for all Mortgage Loans under Program 57A. The Department has previously contracted with First Nationwide Mortgage Corporation to act as the Master Servicer for Mortgage Loans financed with funds made available through the issuance of the Series 1995A-1/B-1/C-1 and Series 1996 A/B/C/D/E Bonds. The Department contracted with Texas State Affordable Housing Corporation ("TSAHC") to act as the Master Servicer for Mortgage Loans financed with funds made available through the issuance of the Series 1997A/B/C/D/E Bonds. TSAHC, in turn, has contracted with Countrywide, as subservicer, to carry out the servicing responsibilities with respect to Mortgage Loans financed with funds made available through Series 1997 A/B/C/D/E Bonds.

Servicing of Mortgage Loans Other than those Evidenced by Mortgage Certificates

Each Mortgage Lender was required to be a FHA-approved mortgagee and a Fannie Mae-, VA- or RHS-approved seller and servicer of FHA-insured mortgages. Each Mortgage Lender must service Mortgage Loans in accordance with the servicing standards set forth in the Fannie Mae Home Mortgage Servicer's Contract Supplement or the RHS Servicer's Guide as they may be in effect during the term of the Program, except as such standards are specifically modified by the Agreement, the Department or the lender's manual published by the Department. The servicing standards of the Department are applicable to its existing Mortgage Loans except where additional services must be provided to ensure compliance with applicable federal income tax laws. Each Mortgage Lender is required to service the Mortgage Loans sold by it to the Department unless, prior to the execution of the Agreement, the Department directs the assignment of servicing to another Mortgage Lender. As compensation for such services, a Mortgage Lender is entitled to receive a monthly servicing fee of between .25 and .375 percent of the unpaid principal balance of each Mortgage Loan serviced. For Mortgage Loans delinquent 15 days or more, late charges may be collected and retained by Mortgage Lenders as permitted by law. A Mortgage Lender is required to pay all expenses incurred by it in connection with its servicing activities (including maintenance of its errors and omissions insurance policy and fidelity bond). A Mortgage Lender may, with the prior written consent of the Department, assign its servicing rights

and obligations to another Mortgage Lender in good standing under the Program. The Department may maintain a list of approved standby servicers that have agreed to service Mortgage Loans originated by other Mortgage Lenders at the applicable servicing fee.

All moneys collected by the Mortgage Lender pertaining to the Mortgage Loans may be deposited to a clearing account maintained by the Mortgage Lender; however, all Revenues shall be received in trust by the Mortgage Lender and are required to be deposited promptly to a custodial account on a daily basis subject to withdrawal on the demand of the Trustee on behalf of the Department at any time. The deposits must be made into an account insured by the FDIC. The Mortgage Lender must remit to the Trustee for deposit into the Revenue Fund, after deduction of its servicing fee, on or before the fifteenth day of each calendar month all moneys deposited or held in the custodial account from the first day of such month through the tenth day of such month, and on or before the fifth Business Day of each calendar month all moneys deposited or held in the custodial account on or before the last day of the preceding calendar month which have not been remitted to the Trustee, except that (i) any insurance proceeds are to be held in the custodial account pending the determination of whether such moneys shall be applied to the repair of the related property or constitute principal prepayments, and (ii) any principal prepayment representing payment in full of a Mortgage Loan less any credit required for federal income tax purposes are to be remitted within five Business Days after receipt by the Trustee for application in accordance with the Trust Indenture. If at any time the amount on deposit in the custodial account shall exceed the lesser of \$100,000 or the amount insured by the FDIC, as the case may be, the Mortgage Lender must remit immediately to the Trustee for application in accordance with the Trust Indenture the amount on deposit in the custodial account. All moneys received as escrow payments by the Mortgage Lender are to be received in trust for the Department and the applicable eligible borrower and are to be deposited by the Mortgage Lender in such account or accounts as the Mortgage Lender is required to maintain for like payments made with respect to mortgages which are being serviced for Fannie Mac or RHS. In the event any mortgagor's escrow account is insufficient for a payment required to be made from such account, the Mortgage Lender must advance such money to make the required payment.

With respect to any Mortgage Loan it is servicing, the Mortgage Lender is responsible for determining the necessity of instituting foreclosure action. The Mortgage Lender is required to submit its foreclosure recommendation to the Department within five Business Days after a Mortgage Loan is 60 days delinquent. If the Department concurs with a recommendation to foreclose, the Mortgage Lender must conduct all foreclosure procedures in accordance with the Agreement. If the Department does not concur with a recommendation to foreclose, the Mortgage Lender is required to continue to service the Mortgage Loan in accordance with the procedures specified in the Agreement. With respect to FHA-insured Mortgage Loans, the regulations governing all of the FHA mortgage insurance programs provide that insurance benefits are payable either upon foreclosure (or other acquisition or possession) and conveyance of the mortgaged premises to the United States Department of Housing and Urban Development ("HUD") or upon assignment of the defaulted Mortgage Loan to HUD. Upon default in the payment of a Mortgage Loan guaranteed by the VA, the VA has the option to either (i) pay the holder of the Mortgage Loan an amount not in excess of the pro-rata portion of the amount originally guaranteed or (ii) pay the holder of the Mortgage Loan the unpaid balance thereon plus accrued interest and receive an assignment of the Mortgage Loan and security. See "APPENDIX B -- SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS."

Mortgage Lenders are required to submit various reports and information to the Department, including information concerning Mortgage Loans that are delinquent or in foreclosure, audited annual financial statements and annual certifications regarding compliance by the Mortgage Lender with the Agreement.

The Department may terminate the Agreement with respect to any Mortgage Lender upon the occurrence of certain events set forth in the Agreement. Within 30 days following such termination, a Mortgage Lender is required to deliver to the Department all Mortgage Loan files, all moneys in escrow relating to the Mortgage Loans serviced by such Mortgage Lender and all Revenues received by such Mortgage Lender not previously remitted to the Trustee.

Servicing of the Mortgage Loans Evidenced by the Mortgage Certificates

Each Mortgage Lender will be required to assign its rights to service the Mortgage Loans evidenced by Mortgage Certificates originated by it to the Master Servicer. As compensation for its duties as servicer of Mortgage Loans, the Master Servicer will be entitled to receive a monthly servicing fee equal to one-twelfth of 0.44% of the outstanding principal amount of the Ginnie Mae Certificates issued by it and 0.25% of the outstanding principal amount of the Fannie Mae Certificates delivered by it. Since the Mortgage Loans will bear interest at a rate which will be 0.50% greater than the rate on the corresponding Ginnie Mae Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on the Mortgage Loans included in a Ginnie Mae Certificate, with the remaining 0.06% paid to Ginnie Mae as its Ginnie Mae guaranty fee. See "APPENDIX C-1 - GINNIE MAE AND THE GINNIE MAE CERTIFICATES." In the case of Mortgage Loans included in a Fannie Mae Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on such Mortgage Loans, with the remaining 0.25% paid to Fannie Mae as its Fannie Mae guarantee fee. See "APPENDIX C-2 - FANNIE MAE AND THE FANNIE MAE CERTIFICATES."

Servicing of the Mortgage Loans is required to be carried out in accordance with generally accepted practices in the mortgage lending industry and in accordance with the servicing standards set forth in the Ginnie Mae Guide or the Fannie Mae Guides, as applicable. In particular, the Master Servicer will be required to pursue collection on the applicable Mortgage Loans with prudence and diligence, manage foreclosure or assignment procedures, and file, process and receive the proceeds from FHA mortgage insurance, VA or RHS guaranty claims, or private mortgage insurance. All proceeds received by the Master Servicer with respect to a Mortgage Loan included in a Ginnie Mae Certificate must be deposited into the Ginnie Mae Issuer's Primary Custodial Account and administered by the Master Servicer and the Ginnie Mae Paying Agent as more fully described herein in "APPENDIX C-1 - GINNIE MAE AND THE GINNIE MAE CERTIFICATES."

The Master Servicer, as servicer of the Mortgage Loans, must provide to the Department and such other person specified in a Supplemental Indenture, audited financial statements on an annual basis and monthly reports relating to Mortgage Loan originations and purchases. The Master Servicer may not resign from its servicing duties unless it is determined that its duties are no longer permissible under applicable laws or regulations, and then only upon the assumption of the servicing duties by a successor servicer acceptable to FHA, VA, Ginnie Mae, Fannie Mae and the Department. In the event the Master Servicer is in material breach of its servicing obligations imposed by Ginnie Mae, Fannie Mae or the Department or a material adverse change has occurred in the financial condition of the Master Servicer, the Department, with the approval of Ginnie Mae and Fannie Mae, may terminate the Master Servicer's servicing rights and transfer and assign those rights to another Fannie Mae and Ginnie Mae-approved servicer.

The Master Servicers

Countrywide Home Loans, Inc. ("Countrywide") has been selected by the Department to act as Master Servicer for 2002 Mortgage Loans under Program 57A. Countrywide is engaged primarily in the mortgage banking business and, as such, originates, purchases, sells and services mortgage loans. Countrywide is not currently serving as a Master Servicer for any Mortgage Loans financed with proceeds of the Prior Bonds, but,

as noted below, does act as Sub-Servicer for the Mortgage Loans financed with proceeds of the Series 1997A/B/C/E Bonds. Countrywide is a wholly-owned subsidiary of Countrywide Credit Industries, Inc. ("CCII"). CCII is a publicly-held corporation, the common stock of which is listed on the New York Stock Exchange and the Pacific Stock Exchange. CCII is subject to the information requirements of the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by CCII can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements, and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

The Master Servicer for Mortgage Loans financed with proceeds of the Series 1997A/B/C/D/E Bonds is Texas State Affordable Housing Corporation ("TSAHC"). Texas Star Mortgage ("TSM") is the registered business name of TSAHC and is a non-profit mortgage banking company engaging in single and multi-family lending to targeted rural and under served areas in Texas. As of February 28, 2002, TSM participates as Master Servicer for the Department for 1,984 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance in the amount of \$124,605,003. At present Countrywide is acting as Sub-Servicer for TSM with respect to all of such Mortgage Loans. TSM was incorporated under the Texas Non-Profit Corporation Act, Article 1396.1.01 et seq., Vernon's Annotated Texas Civil Statutes, as amended and its purpose and mission are set forth by the 75th Texas Legislature. TSM is not a State agency. However, TSM is subject to significant state oversight by the State Auditor's Office, Texas Bond Review Board and Sunset Commission. TSM is an approved lender for FHA, a Ginnie Mae approved issuer of single family multi-family mortgage backed securities, and an approved seller/servicer for Fannie Mae and FHLMC.

First Nationwide Mortgage ("First Nationwide") is the Master Servicer for the Mortgage Loans financed with proceeds of the Series 1995A-1/B-1/C-1 Bonds and the Series 1996A/B/C/D/E Bonds. As of February 28, 2002, First Nationwide participates as Master Servicer for the Department for 2,479 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance of \$152,190,311. First Nationwide is a wholly owned subsidiary of California Federal Bank, a federal savings bank. First Nationwide is involved in the mortgage banking business, with a focus on a wholesale lending operation and mortgage loan servicing. First Nationwide is an approved FHA, VA, and RHS lender, a Ginnie Mae approved issuer/servicer for mortgage-backed securities guaranteed by Ginnie Mae and a FHLMC-approved seller/servicer for mortgage-backed securities guaranteed by Fannie Mae.

THE TRUST INDENTURE

General

The Trust Indenture, which includes the master indenture and each of the supplements and amendments thereto relating to the Bonds, contains various covenants and security provisions, certain of which are summarized below. In addition, the Trust Indenture contains requirements for the purchase of Mortgage Loans (including Mortgage Certificates) and certain covenants with respect to applicable provisions of federal income tax law. See "TAX MATTERS." Reference should be made to the Trust Indenture, a copy of which may be obtained from the Department, for a full and complete statement of its provisions.

MBIA Treated as Bondholder

Notwithstanding the following descriptions, for so long as MBIA is not in default under MBIA's policy, the Series 2002 Supplemental Indentures provide that the Trustee shall recognize MBIA as the holder of each Series 2002 Bond for purposes of exercising all options, votes, rights, powers, or the like available to the Bondholders under the Trust Indenture.

Funds and Accounts

The following Funds are established under the Trust Indenture: Mortgage Loan Fund; Revenue Fund; Debt Service Fund (and a Principal Account, an Interest Account, a Debt Service Reserve Account and a Redemption Account therein); Expense Fund (and a Rebate Account therein); and Special Mortgage Loan Fund. The Funds and Accounts (except for the Principal Account, Interest Account and Redemption Account of the Debt Service Fund which are held by the Trustee and the Expense Fund which is held by the Department) are held by the Trustee and deposited with the Comptroller of Public Accounts of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company, as depository (the "Depository") under the Trust Indenture. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

The Thirty-Second Supplemental Indenture, the Thirty-Third Supplemental Indenture and the Thirty-Fourth Supplemental Indenture create a common account for the Series A Bonds, the Series B Bonds, and the Series C Bonds within each listed Fund and a common Subaccount for the Series A Bonds, the Series B Bonds, and the Series C Bonds within each listed Account except for the Special Mortgage Loan Fund and the Debt Service Reserve Account. In addition, the Thirty-Second Supplemental Indenture creates a 2002 Down Payment Assistance Subaccount within the 2002 A/B/C Account of the Mortgage Loan Fund and a 2002 Capitalized Interest Subaccount within the 2002 A/B/C Account of the Revenue Fund. The Thirty-Fifth Supplemental Indenture creates an account for the Series D Bonds within each listed Fund and a Subaccount for the Series D Bonds within each listed Account except for the Special Mortgage Loan Fund and the Debt Service Reserve Account. The Accounts and Subaccounts so created do not grant a priority of the Series 2002 Bonds over that of any other series of Bonds.

Mortgage Loan Fund

Certain proceeds of the Series A Bonds and certain funds made available as a result of the issuance of the Series B Bonds and Series C Bonds will be deposited in, and the 1991A Transferred Mortgage Loans will be transferred to, the 2002 A/B/C Mortgage Loan Account of the Mortgage Loan Fund with accrued interest on the Series 2002 Bonds from their dated date to the Issuance Date to be deposited in the Revenue Fund. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.

Amounts in the Mortgage Loan Fund will be used to pay: (i) the costs of acquiring the Mortgage Certificates, (ii) the costs of issuance of the Bonds, and (iii) any other fees and expenses incurred in connection with the acquisition of the Mortgage Certificates which are payable by the Trustee on behalf of the Department pursuant to any agreement with Mortgage Lenders, and the fees and expenses of the Trustee.

Under certain circumstances, as required by the Trust Indenture, the Trustee, at the direction of the Department, is required to transfer amounts in the Mortgage Loan Fund to the Redemption Account to pay the principal of Bonds to be redeemed or to be purchased. To the extent other moneys are not available in any other fund or account, amounts in the Mortgage Loan Fund may be applied to the payment of principal or Redemption Price of and interest on the Bonds.

The Department has covenanted in the Trust Indenture that it will only acquire, refinance or sell Mortgage Loans or Mortgage Certificates if it has determined, on the basis of its most recent Statement of Projected Revenues, and other information available to it, that such action will not adversely affect the Department's ability to pay, when due, the principal or Redemption Price of and interest on the Bonds. See "SECURITY FOR THE BONDS - Certain Information as to Revenues, Investments, Debt Service and Department Expenses -- Statement of Projected Revenues" and "SECURITY FOR THE BONDS - Sale of 2002 Mortgage Certificates."

Expense Fund

Amounts in the Expense Fund (except for amounts in the Rebate Account therein) may be paid out from time to time by the Department for Department Expenses, for taxes, insurance, foreclosure fees, including appraisal and legal fees, security, repairs and other expenses incurred by the Department in connection with the protection and enforcement of its rights in any Mortgage Loan and the preservation of the mortgaged property securing such Mortgage Loans. Excess amounts in the Expense Fund may be transferred to the Revenue Fund.

Funds on deposit in the Rebate Account are required to be withdrawn periodically by the Department and set aside to pay any amounts required to be rebated to the United States under applicable provisions of federal income tax law.

Revenue Fund

All Revenues are required to be deposited in the Revenue Fund promptly upon receipt by the Department. On the first day of each month, or as soon thereafter as possible, the Trustee is required to transfer from the Revenue Fund to the Expense Fund the amount, estimated by the Department, to be required to pay the Department Expenses during the next month together with the amount, if any, necessary to maintain or restore an operating reserve in the Expense Fund to the sum estimated in the Department's current annual budget to be required to pay two months' Department Expenses. The Series 2002 Supplemental Indentures require the Department to estimate periodically the amounts necessary to pay an amount (the "Rebate Amount") to the United States of America as required under Section 148(f) of the Code and applicable provisions thereunder and thus include such amounts in its monthly estimate of Department Expenses.

On or before each Interest Payment Date on the Bonds, the Trustee is required to transfer Mortgage Loan Principal Payments at the Department's direction to either the Principal Account, the Mortgage Loan Fund, or to the Redemption Account; provided, however, that all amounts representing Mortgage Loan Principal Payments shall be transferred to a Redemption Account and applied to the redemption of the respective series of Bonds within six months after receipt. The Trustee also must transfer from the Revenue Fund the other amounts on deposit therein representing investment earnings on funds and accounts and Mortgage Loan Interest Payments to the Debt Service Fund as follows: (i) to the Interest Account, to the extent required so that the balance in said Account equals the amount of the interest which will be due and unpaid on such Interest Payment Date, (ii) to the Principal Account, to the extent required so that the balance in said account equals the amount of principal which will be due and unpaid on such Interest Payment Date, and (iii) to the Debt Service Reserve Account, to the extent required so that the balance in such Account equals the Debt Service Reserve Account Requirement. Any amounts remaining in the Revenue Fund after such payments described above are made are deemed Surplus Indenture Revenues.

Surplus Indenture Revenues (with certain exceptions) are transferred to the Surplus Revenues Account of the Revenue Fund. If the Department has satisfied the requirements in clause (iii) of the second paragraph below, amounts in the Surplus Revenues Account are transferred on or before each Interest Payment Date or

redemption date for the Junior Lien Bonds to the trustee under the Junior Lien Trust Indenture to the extent such amounts are needed to pay amounts due on the Junior Lien Bonds, to pay fees and expenses associated with the Junior Lien Bonds and to restore reserves and other accounts for such Junior Lien Bonds.

During such time as the Department is not meeting the Asset Test described in the next succeeding paragraph, the Department may only direct the Trustee to use Surplus Indenture Revenues as described under "SECURITY FOR THE BONDS - Certain Information as to Revenues, Investments, Debt Service and Department Expenses -- Statement of Projected Revenues."

The Department will be deemed to have met the Asset Test if (i) the Department shall have on file with the Trustee a Statement of Projected Revenues giving effect to a transfer and release proposed as described in the next succeeding paragraph projecting that available Revenues will be sufficient to pay Department Expenses and aggregate Debt Service on the Bonds and any Outstanding Junior Lien Bonds when due in the then-current and each succeeding Bond Year; (ii) as of the date of such Statement of Projected Revenues the Department Assets (including that portion of junior lien mortgage loans that are permitted to be included as Department Assets by each Rating Agency) are at least equal to 102% of the aggregate principal amount of Bonds and any Junior Lien Bonds then Outstanding; and (iii) amounts then on deposit in the Debt Service Reserve Account are at least equal to the Debt Service Reserve Account Requirement, respectively and amounts in the reserve fund for the Junior Lien Bonds are equal to the reserve fund requirement therefor.

At the end of any Bond Year, if the Department meets the Asset Test, the Department may direct the Trustee to transfer the Surplus Indenture Revenues (in excess of those required to be maintained under the Trust Indenture in order to permit the Department to continue to meet the Asset Test) to the trustee under the Junior Lien Trust Indenture to be used to originate Mortgage Loans, to reimburse a bond insurer or credit provider for amounts provided under a bond insurance policy or other credit support or to originate Junior Lien Mortgage Loans, or the Department may apply such Surplus Indenture Revenues: (1) in any manner permitted during periods when the Department is not meeting the Asset Test, as described under "SECURITY FOR THE BONDS - Certain Information as to Revenues, Investments, Debt Service and Department Expenses -- Statement of Projected Revenues"; (2) (A) to the redemption of Bonds; (B) to the payment of any Department Expenses; (C) to the establishment of reserves therefor, free and clear of the pledge and lien of the Trust Indenture; or (D) to the purchase of Bonds; and (3) any other purpose or payment authorized by the Act, free and clear of the pledge and lien of the Trust Indenture.

No Surplus Indenture Revenues may be applied in any way which would result in less than 90% of all amounts received by the Department with respect to the Mortgage Loans being used for the following purposes: (i) to pay the principal or Redemption Price of or interest on or purchase or otherwise to service the Bonds; (ii) to reimburse the Department for Department Expenses, or to pay for costs of issuance of the Bonds; (iii) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to the Program; (iv) to acquire Mortgage Loans or other loans or mortgages financing residential real property in the State; and (v) to redeem or retire obligations of the Department.

Debt Service Fund -- Interest Account; Principal Account; Redemption Account

The Trustee is required to pay out of the Interest Account by each Interest Payment Date the amount required for the interest payment on such date. The Trustee is required to pay out of the Principal Account by each principal installment due date, the amount required for the principal installment payable on such due date. By the redemption date for any Bonds, the Trustee is required to pay out of the Interest Account the amount required for the payment of interest on the Bonds to be redeemed.

Amounts in the Principal Account with respect to any sinking fund redemption (together with amounts in the Interest Account with respect to accrued interest on the Bonds to be so redeemed) are required to be applied by the Trustee to pay the Redemption Price of the Bonds to be so redeemed. Amounts in the Redemption Account (together with amounts in the Interest Account with respect to accrued interest on the Bonds to be redeemed from the Redemption Account) shall be applied by the Trustee to pay the Redemption Price of the Bonds to be redeemed or may (subject to the provisions of any supplemental indenture), at the direction of the Department, be transferred to the Revenue Fund if notice of redemption has not been published or mailed or such amounts have not been committed to the purchase of Bonds. As soon as practicable after the 40th day preceding the redemption date, the Trustee shall proceed to call for redemption, by giving notice as provided in the Trust Indenture, Bonds in such amount as shall be necessary to exhaust as nearly as possible the amounts in the Redemption Account. In the event that any supplemental indenture establishes a "special sinking fund bond payment," amounts in the Redemption Account representing any such special sinking fund bond payment shall be used only for the purpose of redeeming or purchasing the special sinking fund Bonds for which such payments were established.

Upon any purchase or redemption, other than a sinking fund redemption, of Bonds of any series and maturity for which sinking fund installments have been established, there shall be credited toward each such sinking fund installment thereafter to become due a proportional amount of the total principal amount of such Bonds so purchased or redeemed, or may be credited otherwise at the direction of the Department upon satisfaction of certain conditions set out in the Trust Indenture. The Trustee, at any time at the direction of the Department, is required to apply amounts available in the Principal Account or the Redemption Account to pay the principal portion of Bonds which the Department may purchase at a price (excluding accrued interest to the purchase date but including any brokerage or other charges), no greater than the applicable Redemption Price of such Bonds.

The Department covenants that it will only purchase Bonds or redeem Bonds pursuant to an optional or special redemption, out of amounts in the Redemption Account, if it has determined, on the basis of its most recent Statement of Projected Revenues, and other information available to the Department, that such action will not adversely affect the ability of the Department to pay, when due, the principal or Redemption Price of and interest on the Bonds.

Debt Service Reserve Account

If on any Interest Payment Date for the Bonds, the amount in the Principal Account is less than the amount required to pay the principal and Redemption Price of Bonds then payable, or the amount in the Interest Account shall be less than the amount required to pay interest then due on the Bonds, the Trustee is required to apply amounts from the Debt Service Reserve Account to the extent necessary to eliminate the deficiency first in the Interest Account and second in the Principal Account. Any amount on deposit in the Debt Service Reserve Account prior to the monthly allocation from the Revenue Fund that is in excess of the Debt Service Reserve Requirement will, upon the request of the Department, be transferred to the Revenue Fund.

Whenever the amount in the Debt Service Reserve Account, together with the amounts in the Debt Service Fund is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or Redemption Price and interest thereon), the funds on deposit in the Debt Service Reserve Account may be transferred to the Debt Service Fund for credit to the Redemption Account, and the Interest Account, as appropriate.

The Debt Service Reserve Account Requirement is 3% of the amount of Mortgage Loans Outstanding (for Mortgage Loans represented by Mortgage Certificates the requirement is 0%).

Special Mortgage Loan Fund

As a result of the issuance of the Series 1996 A/B/C Bonds and the Series 1996 D/E Bonds, the Trust Indenture establishes the Special Mortgage Loan Fund as a separate fund pledged (unless withdrawn as provided by the next paragraph) to and available for payment of Debt Service on the Bonds. In the event of any shortfall in funds available to pay any Debt Service on the Bonds, the Depository shall, upon the request of the Trustee, transfer to the Trustee from the Special Mortgage Loan Fund any amount necessary to provide sufficient funds to pay the amount then due and owing.

Moneys on deposit in the Special Mortgage Loan Fund may be withdrawn by the Department for the purpose of acquiring from mortgage lenders Special Mortgage Loans (including participations therein). Special Mortgage Loans are mortgage loans which otherwise meet the requirements of the Code, applicable to mortgage loans financed with the proceeds of qualified mortgage bonds, which bear interest at a rate of 0% per annum, and for which principal amortizes over the term of the loan. Special Mortgage Loans will not satisfy all Mortgage Loan requirements for a Program under the Trust Indenture.

Withdrawals from Funds to Pay Debt Service

If on any Interest Payment Date on the Bonds, the amount in the Interest Account or the Principal Account shall be less than the amount required to be in such Account in order to make payments then due, the Trustee shall transfer from the following Funds and Accounts in the following order of priority the amount of such deficit and apply such amount to pay aggregate Debt Service as necessary: (i) Redemption Account, (ii) Mortgage Loan Fund, and (iii) Debt Service Reserve Account.

None of the following are deemed available under the Trust Indenture for the payment of Debt Service on Bonds: (i) moneys in the Redemption Account which are to be used to redeem Bonds as to which notice of redemption has been given or committed to the purchase of Bonds, (ii) moneys in the Mortgage Loan Fund which are to be used to acquire or refinance Mortgage Loans (or Mortgage Certificates) with respect to which the Department has entered into commitments with borrowers or Mortgage Lenders, or (iii) Mortgage Loans credited to the Mortgage Loan Fund. Prior to withdrawing any amounts from the Mortgage Loan Fund, the Department shall file with the Trustee a Statement of Projected Revenues giving effect to such withdrawal, which shall project Revenues sufficient to pay Department Expenses and Debt Service when due in the then-current and each succeeding Bond Year. If there is not sufficient amount in all funds to pay all required principal, interest and Redemption Price on all Bonds, the available amounts will be applied in accordance with the provisions of the Trust Indenture.

Investments

Moneys held in the Mortgage Loan Fund, the Revenue Fund and the Debt Service Fund are required to be invested and reinvested by the Trustee or by any Depository holding all or a portion of the moneys in such Funds, in accordance with instructions from the Department and moneys held in the Expense Fund are required to be invested and reinvested by the Department or by any Depository holding all or a portion of the moneys in such Fund, in accordance with instructions from the Department, to the fullest extent practicable and if permitted by the Act, in Investment Securities (or certificates of deposit or time deposits) the principal of which the Department estimates will be received not later than such times as will be necessary to provide moneys when needed for payments to be made from each such Fund. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

Interest earned from investing any moneys in any Fund or profits realized from any investments in such Fund are required to be retained in such Fund until it contains the amount required by the Trust Indenture to be deposited therein; thereafter such earnings and profits, net of any losses (except that which represents a return of accrued interest paid in connection with the purchase by the Department, the Trustee or any Depository of any investment or as otherwise provided in a Series Supplement), are required to be transferred to the Revenue Fund. In computing the amount in any Fund or Account created under the provisions of the Trust Indenture for any purpose provided in the Trust Indenture, obligations purchased as an investment of moneys therein must be valued at their amortized value, computed as prescribed in the Trust Indenture.

Other Department Covenants

Prior to the beginning of each Bond Year the Department shall prepare and file with the Trustee an annual budget for the ensuing Bond Year. The Department may not expend any amount from the Expense Fund for Department Expenses for such year in excess of the amounts provided therefor in the annual budget as originally adopted or as amended. The Department shall keep proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions in accordance with generally accepted accounting principles. The Department shall annually, within 150 days after the close of each Bond Year, file with the Trustee, and otherwise as provided by law, a copy of an annual report for such year, accompanied by an accountant's certificate, including the following statements in reasonable detail: a statement of financial position as of the end of such year; a statement of Revenues and Department Expenses; and a summary, with respect to each Fund and Account established under the Trust Indenture of the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of such year. The Department shall at all times appoint, retain and employ competent personnel for the purpose of carrying out the Program and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation salaries, fees and charges, and all persons employed by the Department shall be qualified for their respective positions.

Restrictions and Covenants as to Arbitrage Bonds

The Department covenants to make such use of the proceeds of the Bonds and Revenues, regulate investments of proceeds of the Bonds and Revenues, and take such other and further action as may be required so that the Bonds (other than any taxable bonds) will not be "arbitrage bonds" under Section 148(a) of the Code and the regulations prescribed from time to time thereunder. In particular, the Department reserves the right to direct the Trustee to make specific investments to ensure compliance with the arbitrage restrictions set forth in the Series 2002 Supplemental Indentures.

Events of Default

Each of the following events is an "Event of Default" under the Trust Indenture: (i) default in the due and punctual payment of the principal or Redemption Price of any Bond when due; (ii) default in the due and punctual payment of any installment of interest on any Bond or any sinking fund installment when due and the continuance of such default for a period of 30 days; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Trust Indenture or in the Bonds, and the continuance of such default for a period of 60 days after written notice thereof to the Department by the Trustee or to the Department and to the Trustee by the owners of not less than 10% in principal amount of the Bonds Outstanding; or (iv) the commencement of various proceedings involving the Department in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, state or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the Department or for all or a substantial part

of its property, and unless commenced by or consented to by the Department, their continuation for 90 days undismitted or undischarged.

Bondholders' Rights in the Event of Default

Acceleration. If an Event of Default (other than a covenant default) occurs and is continuing, then the Trustee may and, upon the written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, must, by written notice delivered to the Department, declare the principal of the Bonds then Outstanding and the interest accrued thereon immediately due and payable; subject, however, to the right of the owners of more than 50% in aggregate principal amount of the Bonds then Outstanding, by written notice to the Department and to the Trustee, to annul such declaration and destroy its effect at any time if all Events of Default, other than those arising from nonpayment of principal or interest due solely as a result of such acceleration, have been cured. Such annulment will not extend to nor affect any subsequent Event of Default nor impair or exhaust any right or power consequent thereon. In the event the Bonds are declared due and payable under the Trust Indenture payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. See "BOND INSURANCE."

Other Actions by Trustee. If any Event of Default occurs and is continuing, then the Trustee may and, upon the written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction, must: (i) by mandamus or other suit, action or proceeding at law or in equity require the Department to perform its covenants, representations and duties under the Trust Indenture; (ii) bring suit upon the Bonds; (iii) by action or suit in equity require the Department to account as if it were the trustee of an express trust for the owners of the Bonds; (iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds; or (v) take such other steps to protect and enforce its rights and the rights of the owners of the Bonds, whether by action, suit or proceeding in aid of the execution of any power granted in the Trust Indenture or for the enforcement of any other appropriate legal or equitable remedy.

Judicial Proceedings. If any Event of Default occurs and is continuing, then the Trustee may, and upon written request by the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction, must, proceed by suit or suits, at law or in equity or by any other appropriate legal or equitable remedy, to enforce payment of the principal of and interest on the Bonds under a judgment or decree of a court or courts of competent jurisdiction or by the enforcement of any other appropriate legal or equitable remedy, as the Trustee deems most effectual to protect and enforce any of its rights or the rights of the owners of the Bonds under the Trust Indenture.

Application of Proceeds

The proceeds received by the Trustee in case of an Event of Default, together with all securities and other moneys which may then be held by the Trustee as a part of the Trust Estate, are required to be applied in order, as follows:

- (a) to the payment of the reasonable and proper charges, expenses and liabilities of the Trustee;
- (b) to the payment of the interest and principal or Redemption Price then due on the Bonds, as follows:

(i) unless the principal of all the Bonds shall have become or have been declared due and payable, to the payment to the persons entitled thereto of: first, all amounts of interest then due, in order of maturity, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, without any discrimination or preference; and second, the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, without any discrimination or preference;

(ii) if the principal of all the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference;

(c) to the payment of the amounts required for reasonable and necessary Department Expenses allocable to the Bonds, the Trust Indenture or the Program.

Trustee

Bank One, National Association, a national banking association having a corporate trust office located in Austin, Texas, will continue to serve as the Trustee for the Bonds issued under the Trust Indenture, including the Series 2002 Bonds.

The Trustee is required to be removed if so requested by the owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Department. The Trustee may also resign. In either event, a successor is required to be appointed.

Supplemental Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture of the Department may be adopted, which, upon filing with the Trustee a copy thereof, certified by an authorized officer of the Department, shall be fully effective in accordance with its terms: (i) to authorize Bonds of a series and to specify the matters relative to such Bonds which are not contrary to or inconsistent with the Trust Indenture; (ii) to close the Trust Indenture against, or provide limitations on, the delivery of Bonds; (iii) to add to the covenants of the Department in the Trust Indenture; (iv) to add to the restrictions in the Trust Indenture other restrictions to be observed by the Department which are not inconsistent with the Trust Indenture; (v) to confirm the subjection to any lien or pledge created by the Trust Indenture of the Trust Estate or any other moneys; (vi) to modify any of the provisions of the Trust Indenture in any other respect, effective only after all Bonds of any series Outstanding at the date of the adoption of such supplemental indenture shall cease to be Outstanding; (vii) to amend the Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; or (viii) to surrender any right conferred upon the Department by the terms of the Trust Indenture, provided that the surrender of such right is not inconsistent with the covenants of the Department contained in the Trust Indenture.

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture may be adopted with the consent of the Trustee: (i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision of the Trust Indenture; (ii) to insert such provisions clarifying matters or questions arising under the Trust Indenture as are necessary or desirable and are not contrary to or inconsistent with the Trust Indenture as theretofore in effect; or (iii) to provide for additional duties of the Trustee in connection with the Trust Estate, the Mortgage Loans or the Program.

Amendment of Indenture with Consent of Bondholders

No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owners of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of which the consent of the owners is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any fiduciary without its written assent thereto. For the purposes of the Trust Indenture, a series is deemed to be affected by a modification or amendment of the Trust Indenture if the same adversely affects or diminishes the rights of the owners of the Bonds of such series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment, Bonds of any particular series or maturity would be affected by any modification or amendment of the Trust Indenture and any such determination shall be binding and conclusive on the Department and all owners of Bonds.

Defeasance

If the Department shall pay or cause to be paid, or there shall otherwise be paid, to the owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Trust Indenture, then the pledge of the Trust Estate under the Trust Indenture and all covenants, agreements and other obligations of the Department to the Bondholders, shall thereupon terminate.

Bonds or interest installments for the payment or redemption of which moneys shall be held in trust by the Trustee at the maturity or redemption date thereof shall be deemed to have been paid within the meaning of the Trust Indenture. In addition, all Outstanding Bonds of any series shall be deemed to have been paid within the meaning of the Trust Indenture if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Department shall have given to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or Paying Agents at the same time shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not be redeemed within the next succeeding 60 days, the Department shall have given the Trustee irrevocable instructions to give a notice to the owners of such Bonds that the deposit required by (ii) above has been made with the Trustee or the Paying Agents and that said Bonds are deemed to have been paid in accordance with the Trust Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Any moneys held for the payment of any of the Bonds which remain unclaimed for three years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, shall, at the written request of the Department, be repaid to the Department and the Bondholders shall look only to the Department for payment of such Bonds or coupons.

If there are Junior Lien Bonds Outstanding at the time all Bonds are defeased, all moneys or securities held by the Trustee and not required for the payment of principal or Redemption Price and interest on the Bonds shall be transferred to the trustee under the Junior Lien Trust Indenture.

Depositories

The Department may appoint one or more depositories to hold all or a designated portion of the moneys and investments subject to the lien and pledge of the Trust Indenture. Any depository appointed by the Department must be: (i) the Comptroller of Public Accounts of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company; or (ii) a bank or trust company organized under the laws of the United States or any state thereof, a savings and loan association, savings bank, or the banking institution or association selected by the Department. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

All moneys and securities deposited with any Depository under the provisions of the Trust Indenture are required to be held in trust for the Trustee or the Department, as applicable, and the owners of the Bonds, and may not be applied in any manner that is inconsistent with the provisions of the Trust Indenture. Each Fund or Account held by the Depository shall be a trust fund for purposes of the Trust Indenture.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

The Department has entered into a Depository Agreement relating to the Bonds (the "Depository Agreement"), by and among the Department, the Trustee, and the Treasurer of the State of Texas (now, the Comptroller of Public Accounts of the State of Texas), acting by and through the Texas Treasury Safekeeping Trust Company, a limited purpose corporate trust company organized under the laws of the State of Texas (the "Trust Company"). Pursuant to the Depository Agreement, the Trust Company will hold all moneys and securities required to be credited to all Funds (other than the Principal Account, Interest Account, and Redemption Account of the Debt Service Fund, and the Expense Fund). All money and securities required by the Trust Indenture to be credited to such Funds are required to be remitted to the Trust Company from time to time by the Department and the Trustee. The Trust Company is required to remit amounts from the appropriate accounts held by it to the Trustee at such times as are necessary to pay the principal or redemption price of and interest on the Bonds when due. Moneys held in the accounts held by the Trust Company are required to be invested by the Trust Company pursuant to instruction from the Department as described herein under "THE TRUST INDENTURE -- Investments." The Trust Company is required to hold all moneys and securities delivered to it under the Depository Agreement in trust for the benefit of the Department, the Trustee and the owners of the Bonds.

The Department has agreed to pay the Trust Company an amount sufficient to reimburse the Trust Company for its actual costs of performing its duties under the Depository Agreement. The Department has the right to remove the Trust Company as Depository under the Depository Agreement at any time by filing a written notice with the Trustee and the Trust Company to that effect. The Trust Company may resign as Depository under the Depository Agreement by giving at least 60 days' written notice to the Department and the Trustee of its determination to resign. Upon any such removal or resignation, the Trust Company is required to deliver all moneys and securities held by it under the Depository Agreement to its successor thereunder, or, if there is no successor, to the Trustee.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Series 2002 Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) interest on the Series A Bonds, the Series B Bonds and the Series C 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 (iii) interest on the Series D Bonds is not 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. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 2002 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include the various mortgage eligibility, arbitrage, targeted area, recapture, use of proceeds and information reporting requirements discussed more fully below under the caption "Federal Income Tax Requirements." Bond Counsel's opinion will assume continuing compliance with the procedures, safeguards and covenants of the Master Servicer in the Trust Indenture and the Program Documents pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Series 2002 Bonds for federal income tax purposes, and in addition, will rely on representations by the Department, the Underwriters, the Master Servicer, and the Mortgage Lenders with respect to matters solely within the knowledge of the Department, the Underwriters, the Master Servicer, and the Mortgage Lenders, respectively, which representations Bond Counsel has not independently verified. Bond Counsel has further relied on the report (the "Report") of Causey Demgen & Moore Inc., certified public accountants, regarding the mathematical accuracy of certain computations. If the Department, a Mortgage Lender, or the Master Servicer fails to comply with such procedures, safeguards and covenants or if such representations or the Report should be determined to be inaccurate or incomplete, interest on the respective issue of Series 2002 Bonds could become taxable from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

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% of so much of such taxable excess as does not exceed \$175,000 plus 28% of so much of such taxable excess as exceeds \$175,000. The Code also imposes a 20% 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," issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series A Bonds, the Series B Bonds and the Series C 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 further provides, however, that for purposes of this alternative minimum tax the term "private activity bond" does not include any refunding bond if the original bond was issued before August 8, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series D Bonds is not 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. Notwithstanding the foregoing, the alternative

minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC OR FASIT) includes 75% of the amount by which a corporation's adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, including refunding bonds such as the Series D Bonds, is included in a corporation's "adjusted current earnings," ownership of the Series D Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2002 Bonds, received or accrued during the year.

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, acquisition, ownership or disposition of, the Series 2002 Bonds.

Prospective purchasers of the Series 2002 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 Series 2002 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

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 their opinions to reflect any facts or circumstances that may thereafter come to its 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 2002 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department 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 2002 Bonds could adversely affect the value and liquidity of the Series 2002 Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Federal Income Tax Requirements

General

Sections 103 and 143 of the Code and applicable regulations thereunder provide that the interest on bonds the proceeds of which are used directly or indirectly to finance owner-occupied residences, will not be excludable from gross income for federal income tax purposes unless such bonds (i) are "qualified mortgage bonds;" (ii) are issued in fully registered form; (iii) are not "federally guaranteed" and (iv) are not "arbitrage bonds" within the meaning of the Code. "Qualified mortgage bonds" are bonds that are part of an issue meeting the following requirements: (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve fund) are to be used to finance owner-occupied residences with mortgages that satisfy certain mortgage

eligibility requirements, as set forth more fully below under the subheading "Mortgage Eligibility Requirements;" (ii) a specified portion of the lendable proceeds of such issue must be made available for a minimum period of time for owner financing of residences located within certain targeted areas, as described more fully below under the subheading "Targeted Area Requirement;" (iii) certain arbitrage limitations described more fully below under the subheading "Requirements Related to Arbitrage" must be satisfied; (iv) certain reporting requirement as set forth more fully below under the subheading "Reporting Requirements" must be satisfied; and (v) certain requirements for informing mortgagors regarding the recapture of a portion of the proceeds from the disposition of certain residences as described more fully below under the subheading "Recapture Requirements" must be satisfied.

In addition, to be "qualified mortgage bonds," the costs of issuance financed by an issue of bonds cannot exceed 2% of the proceeds of such issue. Further, the amount of such an issue of bonds, other than certain refunding bonds, when added to the amount of all other private activity bonds issued within the State during calendar year 2002 must not exceed the unified volume cap for private activity bonds imposed by the Code and applicable regulations. An allocation of the unified volume cap is not required for refunding bonds if the maturity date of the refunding bond is not later than the date 32 years after the date on which the refunded bond was issued (or in the case of a series of refundings, the date on which the original bond was issued) and to the extent that the amount of such refunding bond does not exceed the outstanding amount of the refunded bond.

The Department has covenanted in the Trust Indenture that it will take all actions necessary in order to comply with each of the foregoing requirements.

Mortgage Eligibility Requirements

The Code contains six basic mortgage eligibility requirements that must be met at the time a mortgage is executed or assumed.

Residence Requirement. The Code requires that each home financed by a mortgage loan be a single-family residence which can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after financing is provided.

First-time Homebuyer Requirement. The Code requires that at least 95% of the net proceeds of an issue used to provide owner-financing must be used to finance residences of mortgagors who have not had a present ownership interest in any principal residence during the three-year period prior to execution of the mortgage loan; provided, however, that the three-year requirements does not apply (i) to Targeted Area Loans or (ii) in the case of land possessed under a contract for deed by a mortgagor whose principal residence is located on such land and whose family income is not more than 50% of the AMFI (the "Contract for Deed Exception"). For purposes of this exception, the term "contract for deed" means a seller-financed contract for the conveyance of land under which legal title does not pass to the purchaser until the consideration under the contract is fully paid to the seller, and the seller's remedy for nonpayment is forfeiture rather than judicial or nonjudicial foreclosure.

New Mortgage Requirement. No part of the proceeds of an issue of qualified mortgage bonds may be used to acquire or replace an existing mortgage. Thus, all of the lendable proceeds of an issue must be used to provide new mortgages to persons who did not have an existing mortgage (whether or not paid off) on the residence at any time prior to the execution of the new mortgage. An exception from the new mortgage requirement is provided for the replacement of construction period loans, bridge loans or other similar temporary initial financing having a term not exceeding 24 months and certain residences described within the Contract for Deed Exception.

Purchase Price Limitations. The Code requires that the purchase price of the residence may not exceed 90% of the average area purchase price applicable to such residence, or, in the case of residences in certain targeted areas, 110% of the applicable average area purchase price. The Internal Revenue Service has published "safe harbor rules" identifying purchase price limitations in the State that are considered to be in compliance with the requirements of the Code. The Department has determined to rely on the safe harbor figures for purposes of the Bonds.

Income Requirements. The Code requires that all the mortgage loans financed with the proceeds of an issue be provided to borrowers whose family income does not exceed 115% (100% in the case of individuals or families of two) of the greater of the statewide median income or the median income of the area in which the residence is located (140% and 120%, respectively, in the case of such loans for targeted area residences).

Requirements as to Assumptions of Mortgages. The Code provides that a mortgage loan may be assumed only if the assuming mortgagor complies with the residence requirement, first-time homebuyer requirement, purchase price limitations and income requirements, as if the loan were being made to the assuming mortgagor for the first time.

Targeted Area Requirement

The Code requires that either (a) an amount equal to at least 20% of the lendable proceeds of an issue of qualified mortgage bonds or (b) an amount equal to 40% of the average annual aggregate principal amount of mortgages executed during the immediately preceding three calendar years for single family owner occupied residences in the targeted area, if such amount is less, must be reserved, for at least one year from the date such proceeds are first made available to purchase mortgage loans, for the purchase of mortgage loans to provide financing for residences located within one or more targeted areas consisting of census tracts identified by the United States Treasury Department as having a substantial concentration of lower-income persons and areas of chronic economic distress designated by the State and approved by HUD. The State, at the request of the Department, has designated and HUD and the Secretary of the Treasury have approved, certain "areas of chronic economic distress" within the State. In addition, the Department has determined that there are "qualified census tracts" within the State. The Department initially has reserved 20% of the lendable funds made available through the issuance of the Series A Bonds and the Series B Bonds for Targeted Area Residences.

Requirements Related to Arbitrage

Sections 143 and 148 of the Code provide that: (i) the effective interest rate on the mortgage loans financed with the proceeds of an issue of qualified mortgage bonds may not exceed the yield on such bonds by more than 1.125 percentage points; (ii) no more than 10% of the proceeds of a series of bonds may be invested in a reserve fund; (iii) no more than the lesser of 5% of the proceeds of a series of bonds or \$100,000 (other than amounts invested for certain temporary periods or in a "reasonably required reserve fund") may be invested at a yield materially higher than the yield on such bonds; and (iv) the amount of funds held in certain accounts (other than amounts held for certain temporary periods) for a series of bonds invested at a yield greater than the yield on such bonds may not exceed 150% of the current year's debt service on such bonds appropriately reduced as mortgage loans are prepaid. In calculating the effective interest rate on the mortgages, all amounts borne by the mortgagor either directly or indirectly must be taken into account.

The Code also requires the issuer to pay to the United States Treasury certain investment earnings on non-mortgage investments, to the extent that such investment earnings exceed the amount that would have been

earned on such investments if the investments were earning a return equal to the yield on the Series 2002 Bonds to which such non-mortgage investments relate.

Reporting Requirements

An issuer of qualified mortgage bonds is required to file with the Secretary of the Treasury an informational report containing various data regarding such bonds.

Redemption Requirements

The Code contains two redemption requirements which must be satisfied in order for an issue of bonds to be treated as "qualified mortgage bonds."

The Code requires all proceeds of an issue of qualified mortgage bonds in an amount of \$250,000 or more which are not expended to finance residences within 42 months of the date of issuance of such bonds must be used within such 42-month period to redeem bonds which are part of such issue of bonds.

The Code requires that all amounts of \$250,000 or more which are received by the issuer and represent complete repayments of mortgage loans or prepayments of principal of mortgage loans must be used to redeem bonds of the same issue not later than the close of the first semiannual period beginning after the date the prepayment or complete repayment is received. This requirement does not apply to amounts received within ten years after the date of issuance of bonds.

Recapture Requirements

The Code subjects to a tax any mortgagor who disposes of an interest in a residence with respect to which there is or was any federally-subsidized indebtedness (i.e., a mortgage loan) made after December 31, 1990, and the payment for which indebtedness the taxpayer was liable in whole or in part. Specifically, such a mortgagor is subject to the payment of an additional tax reflecting the "recapture amount" with respect to such indebtedness. This recapture amount is determined pursuant to a formula established in the Code based on the "federally-subsidized amount" and certain family income limits applicable to the mortgagor. This recapture provision does not apply to any disposition of an interest in a residence by reason of death or any such disposition which is made more than ten years after the date the mortgage loan is made.

In order to facilitate the collection of the recapture amount from mortgagors, the Code requires that the issuer of any issue of qualified mortgage bonds, at the time of settlement of a mortgage loan, provide a written statement informing the mortgagor of the potential recapture under the Code. Furthermore, the Code requires that the issuer, not later than 90 days after the date each such mortgage is provided, provide a written statement to the mortgagor specifying the federally-subsidized amount with respect to such mortgage loan and the applicable income limits.

The Department, the Mortgage Lenders, and the Master Servicer have covenanted to comply with these information requirements.

Compliance with Tax Requirements

The Code provides that the arbitrage and certain other requirements are deemed to be met if the issuer attempts in good faith to meet such requirements and any failure to meet such requirements is due to inadvertent error. With respect to the mortgage eligibility requirements, however, the Code provides that such requirements are deemed to be met only if: (i) the issuer attempts in good faith to meet such requirements by

establishing reasonable procedures and making reasonable investigations before the mortgage loans were executed; (ii) at least 95% of the mortgages, by aggregate principal amount, meet all the mortgage eligibility requirements at the time of execution or assumption; and (iii) any failure to meet such requirements is corrected within a reasonable period of time after such failure is discovered. In determining whether or not 95% of the mortgage loans satisfy the mortgage eligibility requirements, the issuer is entitled to rely upon affidavits of the mortgagors and sellers of residences financed with the mortgage loans and upon federal income tax returns of the mortgagors, even if the relevant information in such affidavits and returns ultimately proves to be false, unless the issuer knows or has reason to know that such information is false.

The Department has covenanted in the Trust Indenture and the Mortgage Lenders and the Master Servicer have covenanted in the Program Documents to comply with the above-described requirements of the Code as applied to the Series 2002 Bonds and to establish and follow procedures and safeguards sufficient to ensure compliance with such requirements. Nevertheless, if the Department, a Mortgage Lender, or the Master Servicer should fail to comply with such covenants, interest on the Series 2002 Bonds could become includable in gross income for federal income tax purposes from the date of issuance thereof, regardless of the date on which the event causing such includability occurs.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of June 1, 2002 (the "Disclosure Agreement") between the Trustee and the Department, the Department has made the following agreement for the benefit of the holders and beneficial owners of the Series 2002 Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2002 Bonds. Under the Disclosure Agreement, the Department will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from said vendors.

No Eligible Borrower is an "obligated person" (as defined in Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC")) for whom financial information or operating data would be presented in the final Official Statement relating to the Series 2002 Bonds had such Eligible Borrower been known at the time of the offering of the Series 2002 Bonds.

Annual Reports

The Department will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Department of the general type included in this Official Statement under the headings "APPENDIX D-1 -- AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS FOR THE FISCAL YEARS ENDED AUGUST 31, 2001 and 2000" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), "APPENDIX F-1 -- DEPARTMENT'S MORTGAGE LOAN PORTFOLIO," and "APPENDIX F-2 -- OTHER INDEBTEDNESS OF THE DEPARTMENT." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 2002. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Department may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the Department commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Department will provide unaudited financial statements within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D-1 or such other accounting principles as the Department may be required to employ from time to time pursuant to state law or regulation.

The Department's current Fiscal Year will end on August 31, 2002. Accordingly, it will be required to provide updated information by February 28 in the year 2003 and in each year thereafter, unless the Department changes its Fiscal Year. If the Department changes its Fiscal Year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Department will provide timely notices of certain events to certain information vendors. The Department will provide notice of any of the following events with respect to the Series 2002 Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on Debt Service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements 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 2002 Bonds; (7) modifications to rights of securities holders; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2002 Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its Agreement described above under "Annual Reports". The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Department has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and has been determined by the SEC to be a SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2002 Bonds at any future date. The Department disclaims any contractual or tort liability for damages resulting in whole

or in part from any breach of the Disclosure Agreement or from any statement made pursuant to the Disclosure Agreement, although holders of Series 2002 Bonds may seek a writ of mandamus to compel the Department to comply with its Agreement.

The Agreement may be amended by the Department and the Trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Department, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell any Series 2002 Bonds in the primary offering of the Series 2002 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Disclosure Agreement that authorizes such an amendment) of the Outstanding Series 2002 Bonds consent to such amendment or (b) a person that is unaffiliated with the Department (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Holders and beneficial owners of the Series 2002 Bonds. If the Department so amends the Disclosure Agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of any change in the type of financial information and operating data so provided. The Department may also amend or repeal the provisions of the Disclosure Agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling any Series 2002 Bonds in the primary offering of such Series 2002 Bonds.

Notwithstanding the foregoing, under current state law, the Department is required to have an audit performed annually by independent accountants, which audit is available to any person who makes a request to the Department and upon payment of the cost of copying thereof.

Duties, Immunities and Liabilities of Trustee

The Trust Indenture is made applicable to the Disclosure Agreement as if the Disclosure Agreement were (solely for this purpose) contained in the Trust Indenture. The Trustee shall have only such duties as are specifically set forth in the Disclosure Agreement, and no implied covenants shall be read into the Disclosure Agreement against the Trustee.

Compliance with Prior Continuing Disclosure Agreements

The Department has not failed to comply with its previous Continuing Disclosure Agreements in accordance with SEC Rule 15c2-12.

RATINGS

Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service ("Moody's") have assigned ratings to the Series 2002 Bonds of "AAA" and "Aaa", respectively. The ratings of S&P and Moody's are each based upon the delivery of MBIA's policy. No application for a rating was made to any other rating agency. The Outstanding Single Family Mortgage Revenue Bonds which are not insured by a municipal bond insurance policy are presently rate "Aa1" by Moody's and "A+" by S&P.

An explanation of the significance of such ratings may be obtained from the companies furnishing such ratings. The ratings are not a recommendation to buy, sell or hold any Series 2002 Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of such ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2002 Bonds.

UNDERWRITING

The Series 2002 Bonds (except for the Series A Bonds maturing on March 1, 2023, September 1, 2025, and September 1, 2033 (the "Placed Bonds"), which are being placed directly with Fannie Mae) are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters have jointly and severally agreed, pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"), to purchase all of the Series 2002 Bonds other than the Placed Bonds (collectively, the "Underwritten Bonds") at a total purchase price of \$103,600,110, plus accrued interest on the Underwritten Bonds. The Placed Bonds are being sold directly to Fannie Mae pursuant to the Bond Purchase Agreement at a price equal to the principal amount thereof, plus accrued interest thereon. The Underwriters will receive a fee (which includes a placement fee with respect to the Placed Bonds) of \$932,824.50 in connection with the Series 2002 Bonds. The Bond Purchase Agreement provides, among other things, that the Underwriters' and Fannie Mae's respective obligations to make such purchase are subject to certain terms and conditions set forth in such Bond Purchase Agreement, including the approval of certain legal matters by their respective counsel and certain other conditions. The initial public offering prices of the Underwritten Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Underwritten Bonds offered to the public to certain dealers (including dealers depositing the Underwritten Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices other than the public offering prices stated on the inside front cover hereof.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 2002 Bonds and, in such capacity, has responsibility primarily for providing the Department with information on interest rates, reoffering prices and underwriting fees on similar financings being sold under current market conditions.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund for the fiscal years ended August 31, 2001 and 2000 included in this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Deloitte & Touche LLP.

The unaudited interim financial statements of the Department for the six-month period ended February 28, 2002 are included in Appendix D-2 to this Official Statement.

THE SERIES 2002 BONDS ARE SECURED ONLY BY THE ASSETS AND REVENUES DESCRIBED UNDER THE CAPTION "SECURITY FOR THE BONDS" AND NOT BY ANY OTHER SOURCE.

LITIGATION MATTERS

The Department is expected to deliver a certificate upon the closing and delivery of the Series 2002 Bonds stating that there is no controversy or litigation of any nature pending or, to its knowledge, threatened to restrain or enjoin the issuance or delivery of the Series 2002 Bonds, or in any way contesting or affecting the validity of the Series 2002 Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 2002 Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 2002 Bonds or such pledge or application of moneys and security.

LEGALITY FOR INVESTMENT

The Act provides that all obligations issued by the Department are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies of all kinds and types, fiduciaries, trustees, guardians, and the sinking and other public funds of the State, cities, towns, villages, counties, school districts, and other political subdivisions and public agencies of the State.

The Act also provides that all obligations issued by the Department are eligible and lawful security for all deposits of public funds of the State and all public agencies to the extent of the par or market value thereof, whichever is greater.

To the extent that the Series 2002 Bonds constitute "collateralized mortgage obligations that have a stated final maturity of greater than 10 years" within the meaning of the Texas Public Funds Investment Act, the Series 2002 Bonds are not an "authorized investment" for a state agency, a local government, or other investing entity subject to the provisions of the Public Funds Investment Act.

No representation is made that the Series 2002 Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Department has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Series 2002 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 2002 Bonds for such purposes.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., the verification agent, will verify the mathematical accuracy of the computations relating to (i) the sufficiency of projected cash flows receipts and disbursements on the Mortgage Loans and other funds pledged to pay the principal of and interest on the Bonds under certain assumptions and (ii) the computation of yield on the Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 2002 Bonds is excludable from gross income for federal income tax purposes. Causey Demgen & Moore, Inc. will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 2002 Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 2002 Bonds are subject to the approving opinion of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters incident to the issuance of the Series 2002 Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will be passed upon for the Department by its Acting General Counsel, Anne O. Paddock, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their counsel, Wickliff & Hall, P.C..

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2002 Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "PLAN OF FINANCE," "THE SERIES 2002 BONDS" (but excluding the information contained therein under the subheadings "Redemption Amounts and Prepayment Standard" and "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the subheadings "The Prior Bonds", "Prior Series of Junior Lien Bonds," "Prior Mortgage Loans and Mortgage Certificates," "1991 A Transferred Mortgage Loans," and "Certain Information as to Revenues, Investments, Debt Service and Department Expenses"), "THE PROGRAM AND THE MORTGAGE LOANS (but excluding information set forth under the headings "Fannie Mae Expanded Mortgage Loan Products," "Community Home Buyer's Program" and "The Master Servicers")", "THE TRUST INDENTURE," "TEXAS TREASURY SAFEKEEPING TRUST COMPANY," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A, and APPENDIX E, to this Official Statement, solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Trust Indenture and the Series 2002 Bonds. Bond Counsel was not requested to participate and did not take part in the preparation of any other information contained herein and did not assume responsibility with respect thereto or undertake independently to verify the accuracy of any of such information. Except as set forth above, Bond Counsel does not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon such firm's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

ADDITIONAL INFORMATION

Certain provisions of the Act and the Trust Indenture are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. The information contained above is subject to change without notice and no implication is to be derived therefrom or from the sale of the Series 2002 Bonds that there has been no change in the affairs of the Department from the date hereof.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement 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 Department and the purchasers or owners of any of the Series 2002 Bonds.

TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

By: /s/ Michael E. Jones
Chair and Member
Governing Board

By: /s/ Edwina P. Carrington
Executive Director

Dated: May 31, 2002

APPENDIX A

GLOSSARY

APPENDIX A

GLOSSARY

Unless otherwise provided in the text of this Official Statement, capitalized terms used in this Official Statement shall have the following definitions:

"Account" or "Accounts" shall mean any one or more, as the case may be, of the separate special trust accounts created and established within the Funds created and established under the Trust Indenture and the Series 2002 Supplemental Indentures.

"Act" shall mean Chapter 2306, Texas Government Code, as amended.

"Agency" shall mean the Texas Housing Agency, all of whose functions and obligations (including Bonds previously issued under the Trust Indenture) along with the functions and obligations of the Texas Department of Community Affairs were transferred to the Department pursuant to the Act, which abolished both the Agency and the Texas Department of Community Affairs.

"Authorized Denomination" shall mean \$5,000 principal amount or any integral multiple thereof.

"Board" shall mean the Governing Board of the Department.

"Bond Counsel" shall mean a firm or firms of attorneys selected by the Department, and acceptable to the Trustee, experienced in the field of housing revenue bonds the interest on which is excludable from gross income for federal income tax purposes, and whose legal opinion on such bonds is acceptable in national bond markets.

"Bond Depository" shall mean The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, and any successor Bond Depository appointed pursuant to the Series 2002 Supplemental Indentures.

"Bond Year" shall mean each one-year period that ends at the close of business on the day selected by the Department. The first and last Bond Years may be short periods. If no day is selected by the Department before the earlier of the date the last Series 2002 Bond is discharged or the date that is five years after the Issuance Date, Bond Years end on each anniversary of the Issuance Date and on the date the last Series 2002 Bond is discharged.

"Bonds" shall mean any bond or bonds, as the case may be, authenticated and delivered pursuant to the Trust Indenture, including the Series 2002 Bonds, the Prior Bonds and any additional Bonds.

"Business Day" shall mean any day other than a (i) Saturday or Sunday, (ii) day on which banking institutions in New York, New York, the State of Texas or the payment office of the Paying Agent are authorized or obligated by law or executive order to be closed for business, or (iii) day on which the New York Stock Exchange is closed.

"Certificate Purchase Period" shall mean, the period from July 1, 2002, to and including October 1, 2003, but which may be extended to a date no later than November 1, 2005.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with the corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect

thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Series 2002 Bonds.

"Contract for Deed Exception" shall mean the exception from certain Mortgage Loan eligibility requirements available with respect to a Borrower possessing land under a contract for deed as provided in Section 143(i)(1)(C) of the Code.

"Counsel's Opinion" shall mean a written opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may also be counsel to the Department) selected by the Department and satisfactory to the Trustee.

"Debt Service" shall mean, with respect to any particular Bond Year and any series of Bonds, an amount equal to the sum of (a) all interest payable on such Bonds during such Bond Year except to the extent such interest is to be paid from deposits in the Interest Account in the Debt Service Fund made from Bond proceeds, plus (b) the principal installment or installments of such Bonds during such Bond Year. Such interest and principal installments for such Series shall be calculated on the assumption that no Bonds of such series Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of each principal installment on the due date thereof.

"Department" shall mean the Texas Department of Housing and Community Affairs, a body politic and corporate and a public and official governmental agency of the State, and its successors and assigns. The terms Department and Agency shall be used interchangeably.

"Department Assets" shall mean the aggregate of (i) the outstanding principal balance of all Mortgage Loans and (ii) the moneys and Investment Securities in all Funds and Accounts (other than amounts in the Rebate Accounts and amounts designated for payment of costs of issuance and amounts estimated to pay Department Expenses), with the Investment Securities valued in accordance with the provisions of the Trust Indenture.

"Department Expenses" shall mean the Department's expenses of carrying out and administering its powers, duties and functions in connection with the Mortgage Loans and shall include without limiting the generality of the foregoing: salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus; expenses for data processing, insurance premiums, legal, accounting, management, consulting and banking services and expenses; the fees and expenses of the Trustee, Depositories and Paying Agents; Mortgage Loan servicing fees; costs of issuance not paid from proceeds of Bonds; payments to pension, retirement, health and hospitalization funds; and any other expenses required or permitted to be paid by the Department under the provisions of the Act, the Trust Indenture and any Supplemental Indenture, all to the extent properly allocable to the Program.

"Depository" shall mean the Texas Treasury Safekeeping Trust Company, acting in accordance with the Depository Agreement, and any successor depository appointed pursuant to the Trust Indenture.

"Depository Agreement" shall mean that certain Amended and Restated Depository Agreement, dated as of August 1, 1991, by and among the Department, the Trustee and the Depository, together with any amendments or supplements thereto.

"Fannie Mae" or "FNMA" shall mean the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States of America.

"Fannie Mae Certificate" or "FNMA Certificate" shall mean a guaranteed mortgage pass-through Fannie Mae Mortgage-Backed Security bearing interest at the applicable Pass-Through Rate, issued by Fannie Mae in book-entry form, transferred to the account of the Trustee or its nominee (or any successor or transferee), guaranteed as to timely payment of principal and interest by Fannie Mae and backed by conventional Mortgage Loans in the related Fannie Mae pool.

"Ginnie Mae" or "GNMA" shall mean the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act of 1934, as amended (12 U.S.C. § 1716 et seq.), and any successor thereto.

"Ginnie Mae Certificate" or "GNMA Certificate" shall mean a fully-modified, mortgage-backed, pass-through security issued by the Master Servicer in accordance with the applicable Ginnie Mae Guide bearing interest at the applicable Pass-Through Rate and representing the beneficial ownership interest in a Ginnie Mae pool, registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by Ginnie Mae pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and regulations promulgated thereunder backed by Mortgage Loans originated by Mortgage Lenders under the Program and packaged by the Master Servicer into a Ginnie Mae pool.

"Interest Payment Date" shall mean each March 1 and September 1, commencing March 1, 2003.

"Investment Securities" shall mean and include any one or more of the following securities, if and to the extent the same are at the time legal for investment of Department funds:

- (a) obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States of America ("Government Obligations");
- (b) FHA debentures which must not be redeemable prior to their stated maturity;
- (c) obligations of the Federal Home Loan Mortgage Corporation (including only securities guaranteed as to timely payment of principal and interest);
- (d) obligations of the Farm Credit System;
- (e) obligations of Federal Home Loan Banks;
- (f) obligations of Fannie Mae (excluding interest-only and principal-only stripped securities);
- (g) obligations of the Student Loan Marketing Association ("SLMA") 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 dates;
- (h) obligations of Resolution Funding Corporation ("REFCORP");
- (i) federal funds, unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities of not more than 365 days) of any bank the short-term obligations of which are rated in the highest applicable rating category by the Rating Agency;

- (j) deposits which are fully insured by the FDIC (including deposits with the Trustee or an affiliate of the Trustee);
- (k) debt obligations of a state or municipality rated in the highest applicable rating category 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);
- (l) commercial paper having maturities not in excess of one year rated in the highest applicable category by the Rating Agency;
- (m) investment in money market funds registered under the 1940 Act and whose shares are registered under the 1933 Act rated in the highest applicable rating category by the Rating Agency;
- (n) repurchase agreements with any transferor with long-term unsecured debt rated in the highest applicable rating category or commercial paper rated in the highest applicable rating category by the Rating Agency;
- (o) U.S. Treasury STRIPS, REFCORP STRIPS (stripped by the Federal Reserve Bank of New York) and any stripped securities assessed or rated in the highest applicable rating category by the Rating Agency;
- (p) investment agreements secured or unsecured as required by the Department with or guaranteed by any Person whose long-term unsecured general indebtedness is at the date of execution of such agreement rated by the Rating Agency in the highest category for long-term obligations or, if the term of such investment agreement does not exceed one year, whose short term unsecured general indebtedness is at the date of execution of such agreement rated by the Rating Agency in the highest category for short-term obligations (A+ if the Rating Agency is then S&P);
- (q) any other investment which in Counsel's Opinion is at the time permitted by then applicable law for the investment of the Department's funds and to the extent such investments are rated by a Rating Agency in its highest rating category;
- (r) any pooled or common trust fund containing only securities described in the foregoing clauses (a) through (i), including, without limitation, the One Group U.S. Treasury Only Money Market Fund or comparable cash management fund of Bank One, National Association or an affiliate of Bank One, National Association, rated by the Rating Agency in its highest applicable rating category;
- (s) obligations the interest on which is excludable from gross income under Section 103(a) of the Code; provided that such obligations are rated by the Rating Agency in its highest rating category;
- (t) United States Treasury Securities - State and Local Government Series; and
- (u) investment securities described in any Supplemental Indenture for the related series of Bonds the inclusion of which in the definition of Investment Securities for purposes of the Indenture will not, in and of itself, adversely affect any rating then assigned to the Bonds by the Rating Agency, as evidenced by a letter from the Rating Agency (determined without regard to the Credit Facility).

"Issuance Date" shall mean the date of initial issuance and delivery of the Series 2002 Bonds to the Underwriters and Fannie Mae in exchange for payment of the purchase price of such Series 2002 Bonds.

"Junior Lien Bonds" shall mean any bond or bonds issued by the Department for the purpose of making, acquiring or refinancing mortgage loans, which may or may not be pledged as Mortgage Loans under the Trust Indenture, provided the income, revenues and receipts received by the Department on such mortgage loans are pledged as Revenues under the Trust Indenture, which is superior to the pledge of such amounts to the junior lien bonds other than to the payment of Department expenses in carrying out and administering its powers, duties and functions in connection with such mortgage loans.

"Junior Lien Trust Indenture" shall mean the Junior Lien Trust Indenture dated as of May 1, 1994, as supplemented, between the Department and the Trustee, as the same may be amended or supplemented from time to time by a Series Supplement and any other Supplemental Indenture in accordance with the terms thereof.

"Letter of Instructions" shall mean, with respect to the Series 2002 Bonds, a written directive and authorization to the Trustee or any depository specifying the period of time for which such directive and authorization shall remain in effect, executed by two authorized officers of the Department.

"Master Servicer" shall mean Countrywide Home Loans, Inc. or any successor thereto as servicer for the Program.

"Mortgage Certificate" shall mean a Ginnie Mae Certificate or a Fannie Mae Certificate that evidences beneficial ownership of and a 100% participation in a Mortgage Pool.

"Mortgage Lender" shall mean any bank or trust company, mortgage banker approved by Fannie Mae, national banking association, savings bank, savings and loan association, non profit corporation, mortgage company, the Department, any financial institution or governmental agency and any other entity approved by the Department, provided such mortgage lender is authorized to make Mortgage Loans satisfying the requirements of the Trust Indenture.

"Mortgage Loan" shall mean (i) a note or bond secured by a Mortgage which is eligible under the requirements of the Trust Indenture and is acquired with proceeds of Bonds, with temporary indebtedness incurred in anticipation of the issuance of the Bonds or other moneys of the Department which are, or may be, pledged by the Department to the Trustee by the Trust Indenture or by a Supplemental Indenture or (ii) other notes or bonds secured by a mortgage which is eligible under the requirements of the Trust Indenture and which is pledged by the Department to the Trustee by a Supplemental Indenture and which is held under the Trust Indenture. In the proper context Mortgage Loan may mean and include a participation in a Mortgage Loan evidenced by a Mortgage Certificate.

"Mortgage Loan Interest Payment" shall mean, with respect to any Mortgage Loan, the amounts paid or required to be paid from time to time as interest on such Mortgage Loan, after deducting any fees required to be paid for servicing of such Mortgage Loan and excluding any late charges or other charges which may be permitted by the Department to be retained by the servicer of such Mortgage Loan, and shall include amounts (other than amounts which are Mortgage Loan Principal Payments) received from the sale or other disposition of any Mortgage Loan or any collateral securing any Mortgage Loan or from any insurer or guarantor of any Mortgage Loan.

"Mortgage Loan Principal Payment" shall mean, with respect to any Mortgage Loan, all amounts representing (i) scheduled payments of principal thereof and (ii) Mortgage Loan Principal Prepayments other

than portions, if any, of Mortgage Loan Principal Prepayments representing any penalty, fee, premium or other additional charge for the prepayment of principal which may be paid pursuant to the terms of a Mortgage Loan.

"Mortgage Origination Agreement" shall mean each Mortgage Origination Agreement, by and between the Department and a Mortgage Lender relating to the Program, together with any amendments thereto.

"Mortgage Loan Principal Prepayment" shall mean any moneys received or recovered by the Department from any payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan) on any Mortgage Loan other than the scheduled payments of principal called for by such Mortgage Loan, whether (i) by voluntary prepayment made by the mortgagor or (ii) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof (other than insurance moneys received or recovered and used in accordance with the provisions of the Trust Indenture to repair or reconstruct the mortgaged premises which were the subject of insurance proceeds) or (iii) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department or (iv) in the event of a default thereon by the mortgagor, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department or by any other proceedings taken by the Department or (v) from any special hazard insurance policy or standard hazard insurance policy covering mortgaged premises or (vi) from any mortgage insurance, including a private mortgage insurance policy and a mortgage pool insurance policy, or (vii) from any proceeds received from the United States of America or any instrumentality thereof in respect of any insurance or guaranty of a Mortgage Loan.

"Mortgage Pool" shall mean, with respect to a Mortgage Certificate, the pool of Mortgage Loans the beneficial ownership of which is represented thereby, as described on the schedule of pooled Mortgage Loans pertaining thereto.

"1991A Transferred Mortgage Loans" shall mean (i) those Mortgage Loans acquired with proceeds of the Series 1980A Bonds and transferred to the Series 1991A Bonds and (ii) those Special Mortgage Loans acquired with proceeds of the Series 1991A Bonds, all of which Mortgage Loans and Special Mortgage Loans were transferred to the Series 2002D Bonds pursuant to the Thirty Fifth Supplemental Indenture..

"Other Obligated Person" shall mean a person that is a mortgagor with respect to at least 20% in aggregate principal amount of the Mortgage Loans held under the Trust Indenture.

"Outstanding" shall mean, when used with reference to Bonds, ^{as of} as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Trust Indenture except:

- (i) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Trust Indenture; and
- (iii) Bonds deemed to have been paid as provided in the Trust Indenture.

"Paying Agent" shall mean the Trustee or any other entity appointed from time to time in accordance with the Trust Indenture.

"Pass-Through Rate" shall mean 6.15% with respect to 2002 Mortgage Certificates representing Assisted Mortgage Loans, 5.40% with respect to 2002 Mortgage Certificates representing Non-Assisted Mortgage Loans, 6.40% with respect to 2002 Mortgage Certificates representing Fannie Mae Expanded Approval Mortgage Loans, Level I, and 6.40% with respect to 2002 Mortgage Certificates representing Fannie Mae Expanded Approval Mortgage Loans, Level II.

"Program" shall mean the Department's Single Family Mortgage Revenue Bond Program, including that certain program designated as Texas Department of Housing and Community Affairs Bond Program No. 57A, as set forth and implemented through the Program Documents.

"Program Documents" shall mean the Mortgage Origination Agreement, the Servicing Agreement, the Compliance Agreement and the Program Supplement.

"Purchase Agreement" shall mean the Bond Purchase Agreement providing for the initial purchase of the Series 2002 Bonds by the Underwriters.

"RHS" shall mean the United States Department of Agriculture Rural Housing Services, formerly Farmer's Home Administration and any successor thereto.

"Rating Agency" shall mean: (i) Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto; and (ii) Moody's Investors Service Inc., and any successor thereto to the extent either agency then has a rating on the Bonds in effect at the request of the Department.

"Rebate Account" shall mean the Rebate Account of the Expense Fund established pursuant to the Trust Indenture.

"Rebate Amount" shall mean, with respect to the Series A Bonds (and the Series B Bonds and Series C Bonds treated as part of the same issue for federal income tax purposes), that amount as of each respective Computation Date, within the meaning of 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.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Trust Indenture.

"Regulations" shall mean those proposed, temporary or final Treasury Regulations promulgated pursuant to Sections 103 and 103A of the Internal Revenue Code of 1954, as amended prior to enactment of the Tax Reform Act of 1986, or Sections 141 through 150 of the Code.

"Revenues" shall mean (i) all amounts paid or required to be paid with respect to principal and interest or otherwise from time to time on the Mortgage Loans, including Mortgage Loan Principal Payments, including any such amounts held by persons collecting such amounts on behalf of the Department, after deducting any fees required to be paid for accounting, collection and other services required in connection with servicing of the Mortgage Loans, (ii) all interest received on or profits derived from investing moneys or securities held pursuant to the Trust Indenture and paid or to be paid into the Revenue Fund and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee under the Trust Indenture as part of the Trust Estate to the extent so pledged under the Supplemental Indenture, including all amounts paid or required to be paid from time to time on the 2002 Mortgage Certificates, including any payment received from Ginnie Mae or Fannie Mae pursuant to their

respective guaranties of the Ginnie Mae Certificates or Fannie Mae Certificates (as applicable), all Mortgage Loan Principal Prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respects of the 2002 Mortgage Certificates and all other net proceeds of such 2002 Mortgage Certificates. Revenues shall not include fees paid to Mortgage Lenders to service Mortgage Loans or payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans and any payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed on Mortgage Loans or commitment fees or other financing charges paid by a Mortgage Lender to the Department in connection with a commitment to sell and deliver Mortgage Loans to the Department.

"Series A Bonds" shall mean the Department's Single Family Mortgage Revenue Bonds, 2002 Series A, to be issued under the Trust Indenture and the Thirty-Second Supplemental Indenture.

"Series B Bonds" shall mean the Department's Single Family Mortgage Revenue Refunding Bonds, 2002 Series B, to be issued under the Trust Indenture and the Thirty-Third Supplemental Indenture.

"Series C Bonds" shall mean the Department's Single Family Mortgage Revenue Refunding Bonds, 2002 Series C, to be issued under the Trust Indenture and the Thirty-Fourth Supplemental Indenture.

"Series D Bonds" shall mean the Department's Single Family Mortgage Revenue Refunding Bonds, 2002 Series D, to be issued under the Trust Indenture and the Thirty-Fifth Supplemental Indenture.

"Series 1991A Bonds" shall mean the Department's Single Family Mortgage Revenue Refunding Bonds, 1991 Series A.

"Series 2002 A/B/C Cumulative Applicable Amount" means the amount based on the assumed receipt of Mortgage Loan Principal Prepayments received with respect to Mortgage Loans financed with the proceeds of the Series A Bonds, Series B Bonds and Series C Bonds at 300% of the BMA Prepayment Model and redemption of the Series A Bonds, Series B Bonds and Series C Bonds in accordance with the Indenture. Any special redemption of the Series A Bonds, Series B Bonds and Series C Bonds from unexpended proceeds will reduce the Series 2002 A/B/C Cumulative Applicable Amount for the Series A Bonds, Series B Bonds and Series C Bonds for the current and each future semiannual period by an amount equal to the product of such Series 2002 A/B/C Cumulative Applicable Amount and a fraction (a) the numerator of which equals the sum of the amount of moneys disbursed from the 2002 A/B/C Mortgage Loan Account to redeem Series A Bonds, Series B Bonds and Series C Bonds and (b) the denominator of which equals the sum of the amount of moneys initially deposited by the Trustee in the 2002 A/B/C Mortgage Loan Account. The "Series 2002 A/B/C Cumulative Applicable Amount" is equal to the amounts expressed on a cumulative basis in each of the semiannual periods ending on the dates set forth in the table of Series 2002 A/B/C Cumulative Applicable Amounts set forth in the Series 2002 Supplemental Indentures (subject to adjustments as described above). Thereafter, the Series 2002 A/B/C Cumulative Applicable Amount shall be the remaining balance, if any of the Series 2002 A/B/C Cumulative Applicable Amount as adjusted from prior periods.

"Series 2002 A/B/C Cumulative Prepayments" means the amount of Mortgage Loan Principal Prepayments of Mortgage Loans financed with the proceeds of the Series A Bonds, Series B Bonds and Series C Bonds expressed on a cumulative basis.

"Series 2002 Supplemental Indentures" shall mean collectively the Thirty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and the Trustee, the Thirty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and the Trustee, the Thirty-Fourth Supplemental Single

Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and the Trustee, and the Thirty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and the Trustee, together with any amendments thereto.

"Servicing Agreement" shall mean the Program Administrative and Master Servicing Agreement, dated as of October 1, 2001, by and among the Department, the Trustee and the Master Servicer, together with any amendments thereto.

"State" shall mean the State of Texas.

"Surplus Indenture Revenues" shall mean any moneys remaining in the Revenue Fund after all transfers required by the Indenture on any Interest Payment Date on the Bonds.

"Thirty-Second Supplemental Indenture" shall mean the Thirty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and Bank One, National Association, as trustee, pursuant to which the issuance of the Series A Bonds is authorized.

"Thirty-Third Supplemental Indenture" shall mean the Thirty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and Bank One, National Association, as trustee, pursuant to which the issuance of the Series B Bonds is authorized.

"Thirty-Fourth Supplemental Indenture" shall mean the Thirty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and Bank One, National Association, as trustee, pursuant to which the issuance of the Series C Bonds is authorized.

"Thirty-Fifth Supplemental Indenture" shall mean the Thirty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, by and between the Department and Bank One, National Association, as trustee, pursuant to which the issuance of the Series D Bonds is authorized.

"Trust Indenture" shall mean the Single Family Mortgage Revenue Bond Trust Indenture of the Department, dated as of October 1, 1980, as amended by the Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of June 1, 1982, the Thirteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of February 1, 1988, the Fourteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of August 1, 1991, the Fifteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of August 1, 1992, the Sixteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of May 1, 1994, the Seventeenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1995, the Eighteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1995, the Nineteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1995, the Twentieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1995, the Twenty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1996, the Twenty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1996, the Twenty-Sixth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Seventh Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Eighth Supplemental Single Family Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Ninth Supplemental Single Family Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirtieth Supplemental Single

Family Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirty-First Supplemental Single Family Revenue Bond Trust Indenture, dated November 1, 1997, the Thirty-Second Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Third Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Fourth Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, and the Thirty-Fifth Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, and as hereafter amended and supplemented, each between the Department and the Trustee.

"2002 Capitalized Interest Subaccount" shall mean the 2002 Capitalized Interest Subaccount of the 2002 A/B/C Revenue Account.

"2002 Mortgage Certificates" shall mean the Ginnie Mae Certificates or Fannie Mae Certificates that evidence beneficial ownership of and a 100% participation in a Mortgage Pool, that satisfy the requirements of the Trust Indenture which are purchased by the Trustee from amounts available in the 2002 A/B/C Mortgage Loan Account and pledged by the Department to the Trustee pursuant to the Indenture and the Series 2002 Supplemental Indentures.

"2002 Mortgage Loans" shall mean the loans included in each Mortgage Pool represented by a 2002 Mortgage Certificate.

"2002 A/B/C Mortgage Loan Account" shall mean the 2002 A/B/C Mortgage Loan Account of the Mortgage Loan Fund.

"2002 D Mortgage Loan Account" shall mean the 2002 D Mortgage Loan Account of the Mortgage Loan Fund.

"2002 A/B/C Redemption Subaccount" shall mean the 2002 A/B/C Redemption Subaccount of the Redemption Account of the Debt Service Fund.

"2002D Redemption Subaccount" shall mean the 2002D Redemption Subaccount of the Redemption Account of the Debt Service Fund.

"2002 A/B/C Revenue Account" shall mean the 2002 A/B/C Revenue Account of the Revenue Fund.

"2002D Revenue Account" shall mean the 2002D Revenue Account of the Revenue Fund.

"Underwriters" shall mean Salomon Smith Barney Inc. and the other underwriters named on the signature page of the Bond Purchase Agreement.

"Yield" shall mean, with respect to the Series A Bonds (and any Series B Bond and any Series C Bond treated as part of the same issue for federal income tax purposes), yield as determined in accordance with Sections 143(g) and 148(h) of the Code and Sections 6a.103A-2(i), 1.148-4 and 1.148-5 of the Regulations.

APPENDIX B

**SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS
AND TEXAS FORECLOSURE LAWS**

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APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS

Introduction

The United States Department of Housing and Urban Development ("HUD"), created by the Housing and Urban Development Act of 1965, is responsible for the administration of various Federal programs authorized under the National Housing Act of 1934, as amended, and the United States Housing Act of 1937, as amended. The Department of Veterans Affairs (formerly the Veterans Administration) ("VA") administers the mortgage guaranty program authorized under the Servicemen's Readjustment Act of 1944, as amended. These programs may be financed by annual appropriations from Congress, as well as by mortgage insurance premiums and fees. Subsidies and insurance payments are in some cases made from trust funds established under the various programs.

Following is a summary of certain of these Federal programs and private mortgage insurance programs as they affect insurance on Mortgage Loans acquired by the Department from proceeds of the Bonds. This summary does not purport to summarize or describe all of the provisions of these programs. For a more detailed description regarding these programs, reference is made to specific provisions of the master insurance contracts and such other such information relating to the various mortgage insurers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ in some respects depending primarily upon whether the premises contains five or more dwelling units or less than five such units. Insurance benefits are payable only upon foreclosure (or other acquisition or possession) and conveyance of the premises to HUD or upon assignment of the defaulted loan to HUD. Assignment is allowed only with HUD approval if the premises contains less than five dwelling units. Assignment is at the option of the lender if the premises contains five or more dwelling units, but HUD may decrease the insurance payment by an amount equal to 1% of the unpaid principal amount of the loan if the mortgage lender chooses to assign such a loan.

With respect to the assignment of defaulted loans to HUD, the insured must first make a determination as to whether or not the default is caused by a circumstance or set of circumstances beyond the borrower's control which temporarily renders the family financially unable to cure the delinquency within a reasonable time or make full payments. If a determination is made that the default is caused by such circumstances, HUD must be requested to accept assignment, and must have rejected the request in order for the insured to initiate foreclosure proceedings.

Under some of the FHA insurance programs, insurance claims are paid by HUD in cash unless the insured specifically requests payment in debentures issued by HUD. Under others, HUD has the option at its discretion to pay insurance claims in cash or in such debentures. The current HUD policy, subject to change at any time, is to make insurance payments on mortgages covering less than five dwelling units in cash with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the loan, whichever rate is higher.

When entitlement to insurance benefit results from foreclosure (or other acquisition or possession) and conveyance, the insurance payment is computed as of the date of default by the borrower, as defined in HUD regulations, and the insured generally is not compensated for interest accrued and unpaid prior to that date. When entitlement to insurance benefits results from assignment of the loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation of interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment itself bears interest from the date of default or, where applicable, assignment, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property conveyed to HUD or securing a loan which is to be assigned to HUD has been damaged by fire, earthquake, flood, or tornado, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by the mortgage lender prior to such conveyance or assignment.

Department of Veterans Affairs Mortgage Guaranty Program

The Servicemen's Readjustment Act, as amended, permits a veteran (or in certain instances the spouse of a veteran) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one-to-four family dwelling unit. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms limited by the estimated economic life of the property, up to approximately thirty (30) years.

The VA uses a three-tier guaranty system. The maximum VA guaranty for mortgage loans of \$45,000 or less is a guaranty of fifty percent (50%) of the loan. The maximum VA guaranty for mortgage loans of more than \$45,000 to \$56,250 is \$22,500. The maximum VA guaranty for mortgage loans of more than \$56,250 is a guaranty of forty percent (40%) of the loan or \$36,000, whichever is less. Under the Program, a VA Mortgage Loan would be guaranteed in any amount which, together with the down payment by or on behalf of the mortgagor, will at least equal twenty-five percent (25%) of the lesser of the sales price or the appraised value of the single-family dwelling. The actual guaranty may be less than the maximum guaranty as described above in the event a veteran's guaranty entitlement previously used for a guaranteed loan has not been restored by the VA.

The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of the mortgaged premises is greater than the original guaranty, as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgagee of unsatisfied indebtedness on a mortgage upon its assignment to the VA. Under certain circumstances, a mortgagee is required to accept partial payments on a loan that is more than thirty (30) days overdue.

When a VA loan is foreclosed, the VA must decide whether to (i) acquire the property and pay off the debt or (ii) not acquire the property through the "no bid" process. Under option (ii), the VA gives instructions to the mortgagee to make "no bid" at the foreclosure sale and pays the guaranty amount to the mortgagee, leaving the mortgagee responsible for the disposition of the property. Mortgagees may also "buy down" the veteran's indebtedness at the time of the foreclosure sale to convert a no bid into a VA acquisition. No bids are more likely if the property has significantly declined in value, because the cost to the VA to pay the guaranty amount may be less than their expected cost to acquire, manage and dispose of the property.

**United States Department of Agriculture, Rural Development
Guaranteed Rural Housing Loan Program**

The Cranston-Gonzalez National Affordable Housing Act of 1990, authorized the establishment of RHS Guaranteed Rural Housing Loan Program. Households with annual incomes at or below one hundred fifteen percent (115%) of median area income are eligible for these loans, subject to the geographic restrictions described below. Households with annual incomes at or below eighty percent (80%) of the area median income may be eligible for interest assistance, in addition to the loan guaranty. The interest assistance paid monthly by RHS to the loan servicer reduces the borrower's effective interest rate. The amount of interest rate reduction is dependent upon the households' annual income, which is re-certified by the loan servicer annually. No funds currently are available for interest assistance.

The RHS Guaranteed Rural Housing Loan program is limited to only certain rural areas of the State. Any city, place, town or village classified as rural prior to October 1, 1990, with a population exceeding 10,000 but not in excess of 25,000, which is rural in character, will be considered rural until the year 2000. Any city, place, town or village with a population in excess of 10,000 and determined to be urban prior to August 2, 1991 will not be considered an eligible rural area.

The RHS guaranty covers the lesser of (a) any loss equal to ninety percent (90%) of the original principal amount of the loan or (b) any loss in full up to thirty-five percent (35%) of the original principal amount of the loan plus any additional loss on the remaining sixty-five percent (65%) to be shared approximately eight-five percent (85%) by RHS and approximately fifteen percent (15%) by the mortgagee.

RHS does not accept conveyance of the property, but rather pays the lender's claim upon foreclosure. The claim payment includes certain actual costs incurred by the lender prior to foreclosure, including interest expense, and an allowance for the costs associated with liquidating the property. The claim payment amount is based on the net sales proceeds if the property is sold within six (6) months, or if no sale occurs within six (6) months, the claim payment amount is determined according to a formula based upon an appraisal of the property performed by RHS. The lender's actual disposition costs may be higher than the RHS claim payment.

Private Mortgage Insurance Programs

The Department requires that each private mortgage insurer approved for insuring Mortgage Loans (i) shall be approved to issue policies of private mortgage insurance by the Board of Insurance of the State, (ii) be approved to insure mortgages purchased by Fannie Mae or FHLMC, and (iii) shall assure the Department in writing that foreclosure of a Mortgage Loan solely on the basis of non-compliance of such Mortgage Loan with provisions of Section 103A of the Code of 1954 will be an insured event under the terms of its policy of private mortgage insurance. The FHLMC eligibility requirements for approving private mortgage insurers presently provide that not more than 10% of the insurers' mortgage insurance risk may be represented by mortgage insurance covering property other than real property.

The maximum amounts insurable by private insurers must conform to applicable Federal and State regulations. Such amounts are often further limited by whether the home is to be owner-occupied. The maximum amounts insurable for owner-occupied dwellings range from 90% to 95% of the appraised value or selling price, whichever is lower. Requirements of borrower equity vary according to the percentage of the mortgage to be insured. Certain companies will credit toward a specified percentage of this amount the value of the land to be improved, trade-in property or work equity, if at least a minimum cash equity is met and the home is to be owner-occupied. Although there may be variations among companies, available coverage by private mortgage insurers is generally limited to first mortgage loans or contracts on improved

real estate, with amortization over the term of the contract in substantially equal monthly payments, including accruals for taxes and insurance.

Under the various policies, delinquencies must be reported to the insurer within four months of default, and proceedings to recover title are required to be commenced within nine months of default. It is common practice for private mortgage insurers to require that mortgage lenders, prior to presenting a claim under the mortgage insurance, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor. When such a claim is presented, the private mortgage insurer will normally have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim and allowing the insured mortgage lender to retain title to the property.

The amount of loss payable generally includes the principal balance due under the mortgage agreement, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced and expenses incurred in the recovery proceedings.

Mortgage Pool Insurance

General

The Trust Indenture requires that the Department use its best reasonable efforts to maintain a mortgage pool insurance policy for each series of Bonds in an amount at least equal to 10% of the initial aggregate principal amount of Mortgage Loans acquired with the proceeds of each series of Bonds. The mortgage pool insurance policy requirement with respect to Mortgage Loans purchased with proceeds of Bonds and not included within Mortgage Certificates, other than the 1986 Series A Bonds, 1986 Series B Bonds and 1987 Series B Bonds, has been satisfied by the Department's prior receipt of (i) policies from Mortgage Guaranty Insurance Corporation ("MGIC"), covering Mortgage Loans financed with the proceeds of the 1980 Series A Bonds, 1982 Series A Bonds, 1983 Series A Bonds, 1985 Series A Bonds and 1985 Series B/C Bonds and (ii) a policy covering Mortgage Loans financed with the proceeds of the 1984 Series A/B/C Bonds from Verex Assurance, Inc. ("Verex"), which policy was transferred to Verex's parent company, General Charter Mortgage Insurance Corporation, in 1993. Certain of the policies issued by MGIC and Verex provide for advance claims payments with respect to delinquent Mortgage Loans.

The following description of the mortgage pool insurance policies is only a brief outline and does not purport to summarize or describe all of the provisions of such policies. For a complete description of such policies, reference is made to each policy for a full and complete statement of its provisions.

In general, the mortgage pool insurance policies provide insurance coverage on the full amount of any loss which is covered by each policy and realized as a result of a default by a mortgagor on a Mortgage Loan insured thereunder. Payment will be made after foreclosure, payment under the primary mortgage insurance policy insuring the Mortgage Loan, if any, and sale of the foreclosed property approved by the insurer, subject to a limitation on aggregate claims of the applicable aggregate initial principal amount of all Mortgage Loans insured under the policy.

As a condition precedent to the payment of any loss under a mortgage pool insurance policy, mortgage insurance approved by the Department and acceptable to the insurer must generally be maintained by or on behalf of the Department on each Mortgage Loan that has a loan-to-value ratio in excess of the applicable percentage at the time of origination of the Mortgage Loan. Such mortgage insurance, at a minimum, must provide coverage on the amount of the Mortgage Loan in excess of 80% of original fair market value of the property, defined as the lesser of either the sale price or the appraised value at the time of origination. Such

mortgage insurance must remain in force until the unpaid principal balance of the Mortgage Loan is reduced to the applicable percentage of the original fair market value.

Each mortgage pool insurance policy usually requires, as a condition to payment of a claim, that (i) all hazard insurance premiums, real estate taxes, property protection and preservation expenses, property sale expenses and foreclosure costs (including court costs and reasonable attorneys' fees) have been advanced by or on behalf of the Department, as approved by the insurer, (ii) the Department must have acquired good and merchantable title to the property, free and clear of all encumbrances, except permitted encumbrances, including any right of redemption by the mortgagor, and (iii) the Department must have sold the property with the approval of the insurer. In the event of default by the mortgagor, if there is any physical loss or damage to the property from any cause, whether by accidental means or otherwise, it is usually a condition to payment that the insured restore the property to its condition at the time of the issuance of the policy, except for reasonable wear and tear. The mortgage pool insurance policies generally will not insure against a loss sustained by reason of a default arising from or involving certain matters including (i) fraud or negligence in origination or servicing of the Mortgage Loans, including misrepresentation by the Mortgage Lender, borrower or other persons involved in the origination or servicing of the Mortgage Loans; (ii) failure to construct a property subject to a Mortgage Loan in accordance with specified plans; or (iii) physical damage to a property.

The insurer generally has the option either to pay (i) an amount equal to the unpaid principal balance of the defaulted Mortgage Loan at the time of the approved sale, as provided in the applicable policy, plus accrued and delinquent interest at the mortgage rate to the date of payment of the claim plus advances required to be made by or on behalf of the Department as set forth above, conditioned upon the insurer's being provided good and merchantable title to the mortgaged property (unless the property has been conveyed pursuant to the terms of the applicable primary mortgage insurance policy), or (ii) the amount by which the sum of the unpaid principal balance of the defaulted Mortgage Loan at the time of the approved sale, as provided in the policy, plus accrued and delinquent interest at the mortgage rate to the date of payment of the claim plus advances requiring to be made by or on behalf of the Department as set forth above, exceeds the net proceeds received from a sale of the property which the insurer approved. Under either option, the amount of any payment is reduced by the amount of the loss paid under any private mortgage insurance.

A claim under the applicable mortgage pool insurance policy (except for a claim under the advance claims coverage endorsement, described below) must generally be filed (i) in the case when a private mortgage insurance policy is in force, within a specified period after the claim for loss has been settled or paid or within such time after a sale approved by the insurer, whichever is later, or (ii) in the case when a private mortgage insurance policy is not in force, within a specified period after the Department has conveyed title to the property pursuant to an approved sale.

Premiums on any mortgage pool insurance policies will be paid by the Department. Failure to pay a premium will terminate any such policy. If the aggregate recoveries under a policy reach the applicable pool limit of the aggregate initial principal amount of Mortgage Loans insured, coverage under the policy will be exhausted and further losses due to the foreclosure will be borne by the Department.

The amount of coverage under any mortgage pool insurance policy will be reduced over the life of the Bonds covered by such policy by the dollar amount of claims paid less amounts realized by the insurer upon disposition of mortgaged properties. The amount of claims paid generally includes certain expenses incurred by the Department as well as accrued interest on delinquent Mortgage Loans insured under each policy including interest accrued through completion of foreclosure proceedings (excluding applicable charges and penalty interest). See "Foreclosure Laws" herein. Accordingly, if aggregate recoveries under a mortgage pool insurance policy reach the policy limit, coverage under such mortgage pool insurance policy will be exhausted and any further losses will be borne by Bondholders to the extent remaining moneys held under the

Master Indenture are inadequate to pay principal of and interest on the Bonds. Subject to the payment of the applicable premium, an insurer is generally obligated to provide coverage under a mortgage pool insurance policy so long as the Bonds covered by the policy are outstanding.

Some insurers have delivered endorsements to certain mortgage pool insurance policies which provide that they will make advance claims payments in amounts equal to delinquent regular monthly payments of principal of and interest on each Mortgage Loan that is delinquent in three or more monthly payments after receipt of ten days prior written notice thereof. Such advance claims payments will generally be made only if the Mortgage Loan servicer has initiated foreclosure proceedings as required by the mortgage pool insurance policy and diligently pursues such proceedings. The insurer will continue to make such advance claims payments until the insured files, or should have filed, a claim with respect to the Mortgage Loan for which such payments have been made. Advance claims payments must be repaid after payments on the Mortgage Loan have been received (either from the mortgagor, FHA, VA, RHS, private mortgage insurance or through foreclosure) for which advances were previously made or if a claim under the policy is not filed. Claim settlements under a mortgage pool insurance policy will usually be reduced by the sum of unreimbursed claims advances.

The coverage available under the advance claims payment procedure usually equals the limit of coverage provided under the mortgage pool insurance policy. Advance claims payments for which the insurer is ultimately reimbursed are not charged against the limit of coverage under the mortgage pool insurance policy. To the extent foreclosure or other disposition of the property subject to a Mortgage Loan does not result in sufficient liquidation proceeds to reimburse the insurer for all claims advances made under the advance claims payment procedure, aggregate remaining coverage under the mortgage pool insurance policy will be reduced. Upon reaching the applicable aggregate loss limitation under the mortgage pool insurance policy, whether through payments of advances under the advance claims payment procedure or payments as a result of foreclosure losses with respect to Mortgage Loans, coverage under the advance claims procedure also will be exhausted.

Self-Insurance Program

In connection with the 1986 Series A Bonds, the 1986 Series B Bonds and the 1987 Series B Bonds, the Department has been unable to obtain acceptable mortgage pool insurance policies from private mortgage insurers and, in lieu of such policies, established a mortgage pool self-insurance program. The Department and the Trustee entered into a separate Mortgage Pool Self-Insurance Fund Agreement with respect to each such Series of Bonds (each, an "SIF Agreement") pursuant to which: (i) the Department has established or will establish a Mortgage Pool Self-Insurance Fund (a "Self-Insurance Fund") and has deposited or will deposit therein an initial amount equal to .4% of the aggregate principal amount of the Mortgage Loans acquired under the applicable phase of the Program; (ii) the Department has contributed or will contribute to the respective Self-Insurance Fund, until the amount deposited therein equals the Required Fund Amount (as hereinafter defined), all earnings resulting from the investment of the moneys held in the respective Self-Insurance Fund, together with revenues in an amount equal to .15% per annum of the aggregate outstanding principal balance of the Mortgage Loans acquired under the applicable phase of the Program; and (iii) the Department will apply amounts held in the respective Self-Insurance Fund to cover cashflow deficiencies with respect to Mortgage Loans acquired under the applicable phase of the Program deemed to be in default under applicable FHA rules and regulations ("Advance Payments"), and to cover any Loss (as hereinafter defined) incurred in connection with a defaulted Mortgage Loan acquired under the applicable phase of the Program, by transferring appropriate amounts from the respective Self-Insurance Fund to the Revenue Fund. The term "Required Fund Amount" means an amount equal to 1.8% of the initial aggregate principal balance of the Mortgage Loans acquired under the applicable phase of the Program, reduced by the aggregate amount of any unreimbursed Advance Payments and any Losses paid from the respective Self-Insurance Fund. The term "Loss" means, with respect to a defaulted Mortgage Loan, an amount equal to: (a) the sum of (i) the unpaid

principal balance of the Mortgage Loan as of the date of disposition thereof by the Department, (ii) the accumulated delinquent interest on the Mortgage Loan until the date of the payment of FHA insurance proceeds, and (iii) all advances made by or on behalf of the Department in connection with the Mortgage Loan to pay hazard insurance premiums, FHA insurance premiums, real estate property taxes, property protection and preservation expenses, property sale expenses and foreclosure costs; reduced by (b) the sum of (i) the net proceeds received upon disposition of the Mortgage Loan, and (ii) any amount received by or on behalf of the Department pursuant to FHA mortgage insurance with respect to the Mortgage Loan.

Although the amounts held in a Self-Insurance Fund are not part of the Trust Estate, the Department covenanted in the Trust Indenture to create and maintain each Self-Insurance Fund and to apply the moneys therein to pay advance payments and losses incurred in connection with Mortgage Loans acquired under the applicable phase of the Program. The Department is not obligated to fund a Self-Insurance Fund beyond the Required Fund Amount and the Department's obligation to contribute amounts into a Self-Insurance Fund up to the Required Fund Amount is limited to amounts available from investment earnings on the respective Self-Insurance Fund and from Revenues in an amount equal to .15% per annum of the aggregate outstanding principal balance of the Mortgage Loans acquired under the applicable phase of the Program. No other assets or revenues of the Department are required to be contributed to the Self-Insurance Fund or applied to pay Advance Payments or Losses.

Each SIF Agreement contains provisions permitting it to be amended to provide security for Bonds other than the Series of Bonds to which it pertains, subject to the requirement that the Department shall have receive written confirmation from each rating agency that rated such Bonds that such amendments will not impair such rating agency's rating on such Bonds then in effect.

The Department makes periodic deposits to the Self Insurance Fund as required by the applicable bond documents until the maximum required amount is on deposit therein. The Self Insurance Fund balances and delinquency information is set forth in "APPENDIX F-1 DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

The Department is in the process of obtaining the consent of the Rating Agency to a significant reduction in the amounts required to be held in each Self-Insurance Fund.

Standard Hazard Insurance Policies

Each Mortgage Lender acting as a servicer will cause to be maintained by the mortgagor for each Mortgage Loan fire insurance with extended coverage on the mortgaged property (a "Standard Hazard Insurance Policy") in an amount which is not less than the maximum insurable value of the property or the principal balance owing on the Mortgage Loan, whichever is less. Subject to the laws of the State, any amounts collected by a Mortgage Lender under any such policy will be deposited in a custodial account subject to reimbursement pursuant to the Agreement. Such insurance shall be with insurers approved by Fannie Mae or FHLMC.

In general, a Standard Hazard Insurance Policy covers physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike or civil commotion, subject to the conditions and exclusions particularized in each policy. If a residence is located in a designated flood area, flood insurance shall be required to be maintained, and if not covered by other insurance under the Agreement, insurance shall be required to be maintained for wind damage on each residence to the extent deemed advisable by the supervising agent from time to time.

Although policies relating to different Mortgage Loans may be issued by different insurance companies and, therefore, may have minor differences in coverage, the basic terms are dictated by State law.

Policies typically exclude physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement (including earthquakes, landslides and mudflows), nuclear hazard and, in certain cases, vandalism.

In lieu of a Standard Hazard Insurance Policy, each Mortgage Lender acting as a servicer may maintain and keep a "Mortgagee Single Interest Hazard Insurance Policy" throughout the term of the Agreement. The Mortgagee Single Interest Insurance Policy provides insurance against losses sustained by a Mortgage Lender or other insured in the event the mortgagor fails to maintain a Standard Hazard Insurance Policy and physical damage occurs. Each Mortgage Lender agrees to pay the premium for the Mortgagee Single Interest Hazard Insurance Policy on the basis prescribed by the policy. Any amounts collected by the Mortgage Lender under such policy relating to the Mortgage Loans will be deposited in a custodial account maintained by the Mortgage Lender subject to withdrawal by the Trustee.

Foreclosure Laws

If a mortgagor defaults on a Mortgage Loan and foreclosure or other recovery proceedings are instituted there will probably be time delays in collection. The following is intended to be a general description of foreclosure laws in the State of Texas and is not intended to be a legal opinion with respect to such laws.

Mortgage instruments utilized in the State generally and the Mortgages to be used in the Department's programs take the form of deeds of trust containing the power of out-of-court foreclosures and sale. Nonjudicial foreclosure proceedings are governed by Chapter 51, Texas Property Code, which authorizes sales under deeds of trust or other contractual liens if such instruments so provide and sets the minimum standards of notice and procedure for the conduct of non-judicial foreclosure sales. Sales under such Chapter may only be made in the event of a default under the note or deed of trust and acceleration of the debt which is secured, must be conducted by the trustee appointed in the deed of trust or other lien instrument or his successor, and may be conducted only after posting written notice at least 21 days preceding the date of the sale at the courthouse door(s) of the county or counties in which the property to be sold is located. Additionally, the holder of the debt to which the power of sales relates must serve written notice of the proposed sale by certified mail on each debtor obligated to pay the debt, according to the most recent records of such holder, at least 21 days preceding the date of the sale (the "Twenty-One Day Notice"). In addition, if the mortgagor resides on the mortgaged property, twenty (20) days notice of intent to accelerate the Mortgage Loan must be given to the mortgagor prior to the Twenty-One Day Notice. The sale may be conducted only between certain hours on the first Tuesday of the month, as designated in the posted notice of sale. After the foreclosure sale has properly been held in accordance with both the provisions of Chapter 51, Texas Property Code and the provisions of the deed of trust or other lien instrument by which a power of sale is granted, any right to reinstate the debt and all rights of redemption, except rights of the United States, if any, under federal tax lien laws, are extinguished. A nonjudicial foreclosure sale which has not been conducted in accordance with Chapter 51, Texas Property Code and the provisions of the lien instrument granting the power of sale is invalid.

State courts have in the past strictly construed the power of sale created by deeds of trust or other lien instruments and, where both contractual and statutory provisions for nonjudicial foreclosure have not been precisely followed, have declared nonjudicial foreclosure sales to be invalid. In addition, although the State statute providing standards for nonjudicial foreclosures has previously survived challenges that it is unconstitutional, there can be no assurance that such a challenge in the future will not be successful. A foreclosure sale of property on which the United States claims a lien for federal income tax collection, will be made subject to and without disturbing the federal tax lien unless notice of the foreclosure sale is given to the Internal Revenue Service at least 25 days before the sale. Without this prior notice, the sale is made subject to the federal tax lien. Even when such notice is properly given, the United States may redeem such

property within 120 days from the date of the sale, upon payment of the amount paid or credited at the sale, and interest from the date of the sale, and any cost in owning property in excess of the derived income. The remedy of nonjudicial foreclosure may be limited, restricted or denied, not only by bankruptcy or other debtor relief proceedings, but also by the death of a mortgagor either without leaving a will or with probate proceedings that are not independent of the probate court or by the appointment of a receiver by the court in a divorce action involving mortgages to which the spouses in such divorce proceedings are parties. The remedies afforded the holder of the mortgage debt in the events set forth in the preceding sentence require judicial action either as a prerequisite to the valid exercise of nonjudicial foreclosure or in the nature of a judicial foreclosure proceeding or sale through the legal representative involved with the sanction of the court.

Under State law, foreclosure of mortgage liens on real property also may be accomplished by judicial proceedings. In foreclosure pursuant to judicial proceedings, a right to make full payment exists prior to the sale of the property, and, except for federal tax liens as discussed above, the redemption rights of all parties are extinguished by a properly conducted foreclosure sale.

APPENDIX C-1

GINNIE MAE AND THE GINNIE MAE CERTIFICATES

APPENDIX C-1

GINNIE MAE AND THE GINNIE MAE CERTIFICATES

This summary of the Ginnie Mae Mortgage Backed Securities Program, the Ginnie Mae Certificates and the documents referred to herein does not purport to be comprehensive and is qualified in its entirety by reference to the Ginnie Mae Mortgage Backed Securities Guide published by Ginnie Mae and to said documents for full and complete statement of their provisions. The following summary is of the Ginnie Mae I Program and the Ginnie Mae II Program.

Government National Mortgage Association ("Ginnie Mae") is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development ("HUD") with its principal office in Washington, D.C.

To issue Ginnie Mae Certificates, the Master Servicer must first apply to and receive from Ginnie Mae the Commitment to Guarantee Mortgage Backed Securities (the "MBS Agreement"). The MBS Agreement authorizes the Master Servicer to apply to Ginnie Mae for the issuance of Mortgage-Backed Securities to be eligible for guaranty by Ginnie Mae up to a stated date and issue Ginnie Mae Certificates up to a stated amount during a one-year period following the date of the MBS Agreement. Each MBS Agreement is valid for a 12-month period from the date of commitment.

Each Ginnie Mae Certificate is to be backed by a mortgage pool consisting of Mortgage Loans in a minimum aggregate amount of \$250,000 (or such lesser amount as may be approved by Ginnie Mae). Each Ginnie Mae I Certificate will be a "mortgage loan pass-through" certificate which will require the Master Servicer to pass through to the paying and transfer agent therefor (the "Ginnie Mae Paying Agent") by the fifteenth day of each month (or the sixteenth day, if such day is not a business day, provided that, if neither the fifteenth nor the sixteenth day is a business day, the first business day prior to the fifteenth day of the month), the regular monthly payments on the Mortgage Loans (less the Ginnie Mae Guaranty Fee and the Master Servicer's servicing fee, more fully described herein), whether or not the Master Servicer receives such payments, plus any prepayments of principal of the Mortgage Loans received by the Master Servicer in the previous month. Each Ginnie Mae II Certificate will require the Master Servicer to pass through to the central paying and transfer agent for the Ginnie Mae II Program, by the nineteenth day of each month (or the twentieth day, if such day is not a business day; provided that, if neither the nineteenth nor the twentieth day is a business day, then the first business day prior to the nineteenth day of the month), the regular monthly payments on the Mortgage Loans (less the Ginnie Mae Guaranty Fee and the Master Servicer's servicing fee, more fully described herein), whether or not the Master Servicer received such payments, plus any prepayments on the Mortgage Loan received by the Master Servicer in the previous month. The Ginnie Mae Paying Agent is then required to pass through to the Trustee on or before the third business day following the nineteenth day of each month the scheduled payments received from the Master Servicer. Ginnie Mae guarantees timely payment of principal of and interest with respect to the Ginnie Mae Certificate.

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act"), to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool of mortgage loans insured by FHA under the Housing Act, or guaranteed by RHS under Title V of the Housing Act of 1949, or guaranteed by VA under the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38, United States Code. Section 306(g) further provides that "the 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 October 12, 1969, of an Assistant Attorney General of the United States, states that such guarantees under Section 306(g) of mortgage backed certificates of the type being delivered to the Trustee on behalf of the Department are

authorized to be made by Ginnie Mae and "would constitute general obligations of the United States backed by its full faith and credit."

Ginnie Mae, upon execution of the Ginnie Mae Guaranty appended to the Ginnie Mae Certificate and upon delivery of the Ginnie Mae Certificate to the Master Servicer, will have guaranteed to the Trustee as holder of the Ginnie Mae Certificate the timely payment of principal of and interest on the Ginnie Mae Certificate. In order to meet its obligations under such guaranty, Ginnie Mae, in its corporate capacity under Section 306(g) of Title III of the Housing Act, may issue its general obligations to the United States Treasury Department 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 Certificate. The Treasury is authorized to purchase any obligation so issued by Ginnie Mae and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of HUD that the Treasury will make loans to Ginnie Mae, if needed, to implement the aforementioned guaranty.

Ginnie Mae is required to warrant to the Trustee as the holder of the Ginnie Mae Certificate, that, in the event it is called upon at any time to make payment on its guaranty of the principal of and interest on the Ginnie Mae Certificate, it will, if necessary, in accordance with Section 306(d) of Title III of the Housing Act, apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make payments of principal and interest.

The Master Servicer will be responsible for servicing and otherwise administering the Mortgage Loans in accordance with generally accepted practices of the mortgage banking industry and the Ginnie Mae Mortgage Backed Securities Guide (the "Guide").

The monthly remuneration for the Master Servicer for its servicing and administrative functions, and the Guaranty Fee charged by Ginnie Mae are based on the total aggregate unpaid principal balance of Mortgage Loans outstanding. The Ginnie Mae Certificates carry an interest rate that is fixed at .50% below the interest rate on the Mortgage Loans; the Master Servicer's servicing fee and the Ginnie Mae Guaranty Fee are deducted from payments on the Mortgage Loans before payments are passed through to the holder of the Ginnie Mae Certificates.

It is expected that interest and principal payments on the Mortgage Loans received by the Master Servicer will be the source of payments on the Ginnie Mae Certificates. If such payments are less than what is due the Master Servicer is obligated to advance its own funds to ensure timely payment of all amounts coming due on the Ginnie Mae Certificates. Ginnie Mae guarantees such timely payment in the event of the failure of the Master Servicer to pay an amount equal to the scheduled payments (whether or not made).

The Master Servicer is required to advise Ginnie Mae in advance of any impending default on scheduled payments so that Ginnie Mae as guarantor will be able to continue such payments as scheduled on the third business day following the twentieth day of each month. If, however, such payments are not received as scheduled, the Trustee has recourse directly to Ginnie Mae.

The Ginnie Mae Guaranty Agreement to be entered into by Ginnie Mae and the Master Servicer upon issuance of the Ginnie Mae Certificates (the "Ginnie Mae Guaranty Agreement") will provide that, in the event of a default by the Master Servicer, Ginnie Mae will have the right, by letter to the Master Servicer, to effect and complete the extinguishment of the Master Servicer's interest in the Mortgage Loans, and the Mortgage Loans are to thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the holder of the Ginnie Mae Certificate. In such event, the Ginnie Mae Guaranty Agreement will provide that Ginnie Mae will be the successor in all respects to the Master Servicer in its capacity under the Ginnie Mae Guaranty Agreement and the transaction and arrangements set forth or arranged for therein. At

any time, Ginnie Mae may enter into an agreement with an institution approved by Ginnie Mae under which such institution undertakes and agrees to assume any part or all of such duties, and no such agreement will detract from or diminish the responsibilities, duties or liabilities of Ginnie Mae in its capacity as guarantor.

Payment of principal and interest on the Ginnie Mae Certificate is required to be made in monthly installments on or before the third business day following the twentieth of each month commencing the month following the date of issue of the Ginnie Mae Certificate.

Each installment on the Ginnie Mae Certificate is required to be applied first to interest and then in reduction of the principal balance then outstanding on the Ginnie Mae Certificate. Interest is to be paid at the specified rate on the unpaid portion of the principal of the Ginnie Mae Certificate. The amount of principal due on the Ginnie Mae Certificate is to be in an amount at least equal to the scheduled principal amortization currently due on the Mortgage Loans subject to adjustment by reason of unscheduled recoveries of principal on the Mortgage Loans. In any event, the Master Servicer is required to pay to the Trustee, as holder of the Ginnie Mae Certificate, monthly installments of not less than the interest due on the Ginnie Mae Certificate at the rate specified in the Ginnie Mae Certificate, together with any scheduled installments of principal, whether or not such interest or principal is collected from the Mortgagor, and any prepayments or early recovery of principal. Final payment is to be made upon surrender of the outstanding Ginnie Mae Certificate.

The Office of Inspector General (OIG) is required to conduct an annual audit of Ginnie Mae under the provisions of the Chief Financial Officers (CFO) Act of 1990 ("CFO Act"). The complete OIG report is included in the separate management report of Ginnie Mae prepared pursuant to the CFO Act which is available upon request from Ginnie Mae at Government National Mortgage Association, 451 Seventh Street, SW, Washington, D.C. 20410-9000.

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

Mortgage-backed Securities Program

Federal National Mortgage Association ("Fannie Mae") is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. Section 1716 *et seq.*). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market, and was transferred into a stockholder-owned and privately managed corporation by legislation enacted in 1968. The Secretary of Housing and Urban Development exercises general regulatory power over Fannie Mae. Fannie Mae provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans, thereby expanding the total amount of funds available for housing. In addition, Fannie Mae issues mortgage-backed securities primarily in exchange for pools of mortgage loans from lenders.

Although the Secretary of the Treasury of the United States has certain discretionary authority to purchase obligations of Fannie Mae, neither the United States nor any agency or instrumentality thereof is obligated to finance Fannie Mae's obligations or assist Fannie Mae in any manner.

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities (the "Fannie Mae Certificates") backed by pools of mortgage loans (the "MBS Program"). The obligations of Fannie Mae, including its obligations under the Fannie Mae Certificates, are obligations solely of Fannie Mae and are not backed by, or entitled to, the full faith and credit of the United States.

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides") published by Fannie Mae, as modified by the Pool Purchase Contract (hereinafter defined), and, in the case of mortgage loans such as the Mortgage Loans, a Trust Indenture dated as of November 1, 1981, as amended (the "Fannie Mae Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The most recent Fannie Mae Prospectus is dated October 1, 1999 and is updated from time to time. Financial and other information about Fannie Mae are also included in its annual financial statements, the most current of which is dated December 31, 2000.

Copies of the Fannie Mae Prospectus and Fannie Mae's most recent financial statements and any supplements thereto are available without charge from Office of Investor Relations, Federal National Mortgage Association, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (800)237-8627).

The summary of the MBS Program set forth herein does not purport to be comprehensive and is qualified in its entirety by reference to the Fannie Mae Guides, the Fannie Mae Prospectus and the other documents referred to herein.

Pool Purchase Contract

It is expected that Fannie Mae and the Master Servicer will enter into a Pool Purchase Contract, pursuant to which the Master Servicer will be permitted to deliver, and Fannie Mae will agree to purchase mortgage loans in exchange for Fannie Mae Certificates. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase

Contract will be executed substantially in the form presented by Fannie Mae to the Master Servicer as of the date hereof.

Under the Pool Purchase Contract, Fannie Mae will purchase both mortgage loans eligible under the guidelines set forth in the Fannie Mae Guides and mortgage loans insured under the Community Home Buyer's Program which conform to the conditions set forth in the Pool Purchase Contract. See "THE PROGRAM AND THE MORTGAGE LOANS - Community Home Buyer's Program."

The Pool Purchase Contract obligates the Master Servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Certificates

Each Fannie Mae Certificate will represent the entire interest in a specified pool of Mortgage Loans purchased by Fannie Mae from the Master Servicer and identified in records maintained by Fannie Mae.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Certificates that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the Mortgage Loans in the pools represented by such Fannie Mae Certificates, whether or not received, and the full balance of any foreclosed or other finally liquidated Mortgage Loan, whether or not such principal balance is actually received. The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to, the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of Fannie Mae Certificates, would consist solely of payments and other recoveries on the underlying Mortgage Loans and, accordingly, monthly distributions to the Trustee, as the holder of Fannie Mae Certificates, would be affected by delinquent payments and defaults on such Mortgage Loans.

Payments on Mortgage Loans; Distributions on Fannie Mae Certificates

Payments on a Fannie Mae Certificate will be made on the 25th day of each month (beginning with the month following the month such Fannie Mae Certificate is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Certificate, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the Mortgage Loans in the related mortgage pool underlying such Fannie Mae Certificate during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any Mortgage Loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest, (iii) the amount of any partial prepayment of a Mortgage Loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Certificate as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Certificate on its issue date).

For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the stated principal balance of the Mortgage Loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

APPENDIX D-1

AUDITED FINANCIAL STATEMENTS

OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2001 and 2000

[Report of Independent Auditors]

***Texas Department of
Housing and Community
Affairs - Revenue Bond
Enterprise Fund***

*Financial Statements
Years Ended August 31, 2001 and 2000, and
Independent Auditors' Report*

Texas Department of Housing and Community Affairs -
Revenue Bond Enterprise Fund

Years Ended August 31, 2001 and 2000

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INDEPENDENT AUDITORS' REPORT

The Honorable Rick Perry, Governor, and the Board of Directors
Texas Department of Housing and Community Affairs:

We have audited the accompanying balance sheet of Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund (the "Fund") as of August 31, 2001, and the related statements of income, and cash flows for the year then ended and supporting schedules 3 and 4 (supplementary information on pages 27 to 35). These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits. The financial statements of the Fund for the year ended August 31, 2000, were audited by other auditors whose report, dated November 17, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Revenue Bond Enterprise Fund of the Texas Department of Housing and Community Affairs (the "Department") and are not intended to present fairly the financial position of the Department, or the results of its operations and the cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, such 2001 financial statements present fairly, in all material respects, the financial position of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund at August 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, schedules 3 and 4 (supplementary information on pages 27 to 35) present fairly, in all material respects, the information set forth therein.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information by bond program, included as schedules 1 and 2, listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. These schedules are also the responsibility of the Fund's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte + Touche LLP

November 30, 2001

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

BALANCE SHEETS
AUGUST 31, 2001 AND 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Cash and temporary investments (notes 2 and 3):		
Cash on hand	\$ 200	\$ 200
Cash in bank	28,068,586	3,690,774
Cash in State Treasury	<u>211,496</u>	<u>839,010</u>
Total cash and temporary investments	28,280,282	4,529,984
Interfund receivable	140	
Restricted assets:		
Short-term investments	103,911,546	158,123,802
Investments, net (notes 2 and 3)	1,004,647,907	829,503,064
Interest receivable	9,125,756	8,403,933
Mortgage loans receivable, net (notes 3 and 4)	521,157,343	423,310,855
Real estate owned, net (notes 3 and 5)	<u>131,370</u>	<u>239,796</u>
Total restricted assets	1,638,973,922	1,419,581,450
Consumable inventories	3,040	4,535
Notes receivable (note 1)	1,000,000	1,000,000
Fixed assets	1,671,246	1,738,906
Less accumulated depreciation	(1,340,064)	(1,273,519)
Deferred issuance costs, net (note 6)	12,007,766	11,714,608
Other assets	<u>195,236</u>	<u>598,625</u>
TOTAL ASSETS	<u>\$ 1,680,791,568</u>	<u>\$ 1,437,894,589</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Accounts payable	\$ 493,487	\$ 568,848
Deferred revenues	6,695,347	6,009,577
Revenue bonds payable (notes 2, 3, 4 and 6)	1,435,379,247	1,272,236,566
Commercial paper notes payable	15,585,000	31,940,000
Accrued interest payable	22,039,446	21,929,294
Due to other funds	4,495	
Employees compensable leave	338,203	247,434
Due to other agencies	232	
Other liabilities	<u>120,917,500</u>	<u>71,209,649</u>
Total liabilities	<u>1,601,452,757</u>	<u>1,404,141,368</u>
Fund equity - retained earnings, restricted (note 3)	<u>79,338,811</u>	<u>33,753,221</u>
Commitments and contingencies (note 9)		
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,680,791,568</u>	<u>\$ 1,437,894,589</u>

See accompanying notes to the financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
YEARS ENDED AUGUST 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Interest and investment income	\$ 98,686,559	\$ 89,060,546
Realized and unrealized gains (losses) on investments	<u>35,401,159</u>	<u>(22,091,399)</u>
Total investment income	134,087,718	66,969,147
Other operating revenues	<u>8,356,107</u>	<u>3,894,982</u>
Total operating revenues	142,443,825	70,864,129
OPERATING EXPENSES:		
Salaries and wages	3,018,868	3,113,128
Payroll-related costs	583,784	604,010
Professional fees and services	370,290	186,195
Travel	72,448	96,070
Materials and supplies	128,643	111,399
Communication and utilities	93,290	82,452
Repairs and maintenance	303,668	213,894
Rentals and leases	492,056	437,656
Printing and reproduction	35,836	35,661
Depreciation and amortization	781,270	771,813
Claims and judgments	12,760	11,502
Interest expense	88,187,594	78,353,677
Other operating expenses	<u>3,203,471</u>	<u>3,127,172</u>
Total operating expenses	<u>97,283,978</u>	<u>87,144,629</u>
OPERATING INCOME (LOSS)	45,159,847	(16,280,500)
LOSS ON EARLY EXTINGUISHMENT OF DEBT	(914,392)	(1,991,669)
OPERATING TRANSFER FROM THE DEPARTMENT	<u>1,340,135</u>	<u>59,114</u>
NET INCOME (LOSS)	45,585,590	(18,213,055)
FUND EQUITY AT BEGINNING OF YEAR	<u>33,753,221</u>	<u>51,966,276</u>
FUND EQUITY AT END OF YEAR	<u>\$ 79,338,811</u>	<u>\$ 33,753,221</u>

See accompanying notes to the financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from loan programs	\$ 103,184,320	\$ 84,239,864
Proceeds from other revenues	3,920,788	2,595,679
Payments to suppliers for goods and services	(3,441,631)	(4,217,344)
Payments to employees	(3,511,883)	(3,741,950)
Payments for loans funded	<u>(119,149,272)</u>	<u>(75,835,087)</u>
Net cash provided by (used in) operating activities	<u>(18,997,678)</u>	<u>3,041,162</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from debt issuance	224,816,625	284,959,600
Payments for other costs of debt	(1,433,537)	(3,191,344)
Transfers from (to) other funds	(7,068)	(7,069)
Proceeds from (payments to) other funds	1,340,135	59,114
Payments of principal on debt	(79,674,985)	(203,963,517)
Payments of interest	<u>(86,770,889)</u>	<u>(77,166,548)</u>
Net cash provided by noncapital financing activities	<u>58,270,281</u>	<u>690,236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES - Payments for additions to fixed assets		
	<u>(95,056)</u>	<u>(64,018)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	386,680,348	569,731,451
Proceeds from interest and investment income	70,064,943	61,889,277
Payments to acquire investments	<u>(526,384,796)</u>	<u>(565,619,708)</u>
Net cash provided by (used in) investing activities	<u>(69,639,505)</u>	<u>66,001,020</u>
Net increase (decrease) in cash and cash equivalents	(30,461,958)	69,668,400
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>162,653,786</u>	<u>92,985,386</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 132,191,828</u>	<u>\$ 162,653,786</u>

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
 REVENUE BOND ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
 YEARS ENDED AUGUST 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
RECONCILIATION OF CASH FROM OPERATING ACTIVITIES		
TO OPERATING INCOME (LOSS):		
Operating income (loss)	\$ 45,159,847	\$(16,280,500)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation	781,270	771,813
Provision for estimated losses	575,764	697,181
Operating income and cash flow categories - classification differences	(17,668,338)	35,905,397
Changes in assets and liabilities:		
Increase (decrease) in receivables	(140)	
Increase (decrease) in accrued interest receivable	(721,823)	(1,448,310)
Increase (decrease) in loans	(97,846,488)	(46,823,811)
Decrease (increase) in property owned	108,426	
Increase (decrease) in mortgage loan acquisition costs	(293,158)	195,473
Increase (decrease) in deferred revenues	685,570	(653,512)
Increase (decrease) in other assets and liabilities, net	50,111,240	30,909,555
Increase (decrease) in accrued interest payable	<u>110,152</u>	<u>(232,124)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (18,997,678)</u>	<u>\$ 3,041,162</u>

During 2001 and 2000, loans totaling \$471,991 and \$635,297 were foreclosed, respectively, and the related properties acquired were transferred to real estate owned.

See accompanying notes to financial statements.

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2001 AND 2000

1. GENERAL STATEMENT AND SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Texas Department of Housing and Community Affairs (the "Department"), was created effective September 1, 1991, by an act of the 72nd Texas Legislature. Pursuant to Senate Bill 546 (codified as Article 4413 (501), Texas Revised Civil Statutes) (the "Department Act"), passed by the Texas Legislature on May 24, 1991, and signed by the Governor of the State of Texas. Effective September 1, 1991, the Department was established to assist local governments in helping residents overcome financial, social and environmental problems; to address low to moderate income housing needs; to contribute to the preservation and redevelopment of neighborhoods and communities; to assist the Governor and the legislature in coordinating federal and state programs affecting local governments; and to continually inform the state and the public about the needs of local government. The Department was created by merging two former agencies, the Texas Housing Agency and the Texas Department of Community Affairs.

The accompanying financial statements represent the financial status of the Revenue Bond Enterprise Fund of the Department and are not intended to present the financial position of the Department or its results of operations or cash flows. The Department is governed by a Governing Board composed of nine members appointed by the Governor of the State of Texas with advice and consent of the Senate. The Department is to be administered by an Executive Director appointed by the Governor of the State of Texas with advice and consent of the Senate. The Department is authorized to issue tax-exempt or taxable bonds, notes or other obligations to finance or refinance multifamily housing developments and single-family residential housing. Bonds and notes of the Department do not constitute a debt of the state or any political subdivision thereof. The Department Act specifically provides for the assumption by the Department of the outstanding indebtedness of the former agencies. The Department is required to continue to carry out all covenants with respect to any bonds outstanding, including the payments of any bonds from the sources provided in the proceedings authorizing such bonds. For financial reporting purposes, the Department is an agency of the State of Texas and included in its reporting entity.

The Revenue Bond Enterprise Fund is composed of eight separate enterprise funds in 2001 and operates several bond programs under separate trust indentures as follows:

Single-Family Bond Program (Single-Family) - These bonds are limited obligations of the Department. Bond proceeds were used to originate below-market rate loans for eligible low- and moderate-income residents who were purchasing a residence. These bonds were issued pursuant to a Single-Family Mortgage Revenue Bond Trust Indenture, dated October 1, 1980, and indentures supplemental thereto, and are secured on an equal and ratable basis by the trust estate established by such trust indentures.

Residential Mortgage Revenue Bond Program (RMRB) - Seven series (two of which have been refunded) of these bonds have been issued pursuant to the RMRB master indenture and seven separate Series Supplements, and are secured on an equal and ratable basis by the trust estates established by such trust indentures. Proceeds from the 1987 A Bonds were used to purchase single-family loans while

proceeds from the remaining RMRB bond issues were used to purchase pass-through certificates created through the origination of single-family loans.

Collateralized Home Mortgage Revenue Bond Program (CHMRB) - The Department issued six series of bonds pursuant to the CHMRB Trust Indenture with separate supplements for each series. The bonds are secured on an equal and ratable basis. Proceeds from the bonds are being used to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the State.

GNMA/CHMRB Program Series 1993 - These bonds were issued pursuant to a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture. The GNMA/FNMA Bonds were sold through a private placement transaction with FNMA. The proceeds of the GNMA/FNMA Collateralized Bonds are currently being used to finance mortgage loans through the acquisition of GNMA Certificates and FNMA Certificates.

Multifamily Housing Revenue Bond Programs (Multifamily) - These bonds were issued pursuant to separate trust indentures and are secured by individual trust estates, which are not on an equal and ratable basis with each other. The bonds are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the individual trust indentures. Under these programs, the proceeds were provided to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing or were used to refund other multifamily bonds issued for the same purposes.

Collateralized Home Mortgage Revenue Bond Program - Series 1994 and 1995 (COBs) - On November 1, 1994, the Department issued Single-Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program), Series 1994, in the amount of \$84,140,000. This bond program was issued as Private Placement Memorandum with Federal National Mortgage Association ("FNMA"). The Series 1994 and 1995 COBs were issued to provide funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured, VA-guaranteed, FMHA-guaranteed mortgage loans, or conventional mortgage loans acceptable for pooling by FNMA, made to eligible borrowers for single-family residences.

Commercial Paper Notes - By resolution adopted November 10, 1994, the Department's Board has authorized the issuance of two series of commercial paper notes, its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A, and its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series B (the "Notes"). Pursuant to the resolution, the Department is authorized to issue the Notes in an aggregate principal amount not to exceed \$75,000,000 outstanding. Proceeds of the initial issuance of the Notes and of future issues not issued to refund outstanding Notes will be used to redeem certain of the Department's single-family mortgage revenue bonds (the "Refunded Bonds") which are subject to redemption as a result of the receipt by the Department of prepayments of the related underlying mortgage loans. Such prepayments may, at a future date, be recycled into new mortgage loans by the Department. The Notes are being issued in anticipation of the issuance of refunding bonds that will refund the Notes.

Housing Trust Fund - The Department Act provided for a transfer of a portion of the unencumbered fund balance from the bond programs for use in the Housing Trust Fund (the "Fund"). The Fund will be used to provide assistance for persons and families of low and very low income in financing, acquiring, rehabilitating and developing affordable, decent and safe housing. The Fund will be made available to local units of government, public housing authorities, the Department, community housing development organizations and nonprofit organizations as well as, eligible low and very low income individuals and families.

Continuance Subject to Review

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2003, unless continued in existence as provided in the Texas Sunset Act. If abolished, the Department may continue in existence until September 1, 2004, to close out its operations.

Significant Accounting Policies

The significant accounting policies of the Revenue Bond Enterprise Fund are as follows:

(a) Fund Accounting

The Revenue Bond Enterprise Fund's financial statements have been prepared on the basis of the governmental proprietary fund concept as set forth by the Governmental Accounting Standards Board ("GASB"). The governmental proprietary fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as a single proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred. The Revenue Bond Enterprise Fund has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

(b) Investments

The Revenue Bond Enterprise Fund follows the provisions of Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, ("GASB Statement 31"). GASB Statement 31 requires certain types of investments to be reported at fair value in the balance sheet. The Revenue Bond Enterprise Fund utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. Fair value of the Revenue Bond Enterprise Fund's securitized mortgage loans ("GNMA/FNMA") has been estimated by each bond issue's trustee using a pricing service.

The Revenue Bond Enterprise Fund has reported all investment securities at fair value as of August 31, 2001 and 2000, with exception of certain money market investments and nonparticipating interest-earning investment contracts which are reported at amortized cost (historical cost adjusted for amortization of premiums and accretion of discounts) provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors (Note 2).

In accordance with GASB Statement 31, changes in the fair value of investments are reported in the Statement of Revenues, Expenses and Changes in Fund Equity as "Realized and unrealized gains (losses) on investments."

(c) Mortgage-Backed Securities

The Revenue Bond Enterprise Fund's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities or mortgage pass-through certificates.

(d) Note Receivable

The note receivable represents a long-term receivable from a third party. It is due and payable in 2005.

(e) Loans Receivable

Loans receivable are carried at the unpaid principal balance outstanding less the allowance for estimated loan losses and deferred commitment fees. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status when the Department becomes aware that the borrower has entered bankruptcy proceedings or when they are past due 90 days as to either principal or interest or when payment in full of principal and interest is not expected. Deferred commitment fees are recognized using the interest method over the estimated lives of the single-family loans and the contractual lives, adjusted for actual repayments, of the multifamily loans.

(f) Real Estate Owned

Properties acquired through foreclosure are carried at the unpaid principal balance on the related property plus accrued interest and reimbursable expenses through the date of foreclosure, less any sales proceeds, reimbursements received from mortgage insurers and an allowance for estimated losses on such properties. After foreclosure, foreclosed assets are carried at lower of cost or fair value minus selling costs.

Interest on real estate owned is credited to income as earned based on a calculation of interest recoverable in accordance with the Department's agreements with its mortgage insurers.

(g) Allowance for Estimated Losses on Loans and Foreclosed Properties

The allowance for estimated losses on loans is available for future charge-offs on single-family and multifamily loans. The allowance for estimated losses on real estate owned is available for future charge-offs on foreclosed single-family loans.

All losses are charged to the allowance when the loss actually occurs or when a determination is made that a loss is likely to occur. Periodically, management estimates the likely level of future losses to determine whether the allowances for estimated losses are adequate to absorb anticipated losses in the existing loan and real estate owned portfolios. Based on these estimates, a provision for estimated losses on loans and real estate owned is made to the allowances in order to adjust the allowances to levels estimated to be adequate to absorb reasonably foreseeable losses.

While management uses available information to recognize losses in the loan and real estate owned portfolios, future adjustments may be necessary based on changes in economic conditions. However, it is the judgment of management that the allowances are currently adequate to absorb reasonably foreseeable losses in the existing loan and real estate owned portfolios.

(h) Commitment Fees

Commitment fees received in connection with the origination of loans are deferred and recognized using the interest method over the estimated life of the related loans and mortgage-backed securities, or if the commitment expires unexercised it is credited to income upon expiration of the commitment.

(i) Deferred Issuance Costs

Deferred issuance costs on bonds are amortized using the interest method over the contractual life of the bonds to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of deferred issuance costs.

(j) Discounts and Premiums on Debt

Discounts and premiums on debt are recognized using the interest method over the life of the bonds or collateralized mortgage obligations to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt.

(k) Fund Equity

The fund equity of the Revenue Bond Enterprise Fund is restricted for various purposes of the bond trust indentures and other purposes as designated by the Governing Board.

(l) Cash Flows

For purposes of reporting cash flows, cash and cash equivalents consist of cash and short-term investments with a maturity at the date of purchase of three months or less which are highly liquid and are readily exchanged for cash at amounts equal to their stated value.

(m) Interfund Transactions

The Revenue Bond Enterprise Fund has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another. They are accounted for as revenue or expense. All other interfund transactions are reported as transfers.

(n) Gain/Loss on Refundings of Debt

Any gain/loss on refunding of bonds is deferred and amortized as a component of interest expense using the interest method.

(o) Loss on Early Extinguishment of Debt

Any loss on extinguishment of debt prior to its stated maturity is recorded in the period the debt is retired.

(p) Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported revenues and expenses for the period. Actual results could differ significantly from those estimates. Management judgments and accounting estimates are made in the evaluation of the allowance for estimated losses on loans and real estate owned and in determination of the assumptions with respect to prepayments on loans and mortgage-backed securities in the recognition of deferred commitment fees to income.

(q) Reclassifications

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 financial statement presentation.

(2) CASH AND CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES

At August 31, 2001 and 2000, the Revenue Bond Enterprise Fund had cash and cash equivalents, investments and mortgage-backed securities as follows (amounts in thousands):

	<u>Fair Value</u>	
	<u>2001</u>	<u>2000</u>
Cash and Cash Equivalents		
Cash	\$ 27,917	\$ 4,177
Money market accounts	363	353
Mutual funds	9,473	3,601
Guaranteed investment contracts	41,224	102,054
Repurchase agreements	52,378	51,806
U.S. Treasury securities	837	663
	<u>\$ 132,192</u>	<u>\$ 162,654</u>
Investments		
Guaranteed investment contracts	787,865	\$ 125,816
U.S. Treasury securities	205,251	9,321
Mortgage-backed securities	11,532	691,366
	<u>\$ 1,004,648</u>	<u>\$ 826,503</u>

At August 31, 2001 and 2000, the Revenue Bond Enterprise Fund's bank deposits amounted to \$28,068,586 and \$3,690,774, respectively, with bank balances of \$28,068,586 and \$3,690,774, respectively. Of those amounts, \$25,595,639 in 2001 and \$3,166,835 in 2000, were in a depository fully collateralized by securities held with a Trustee in the Department's name or covered by Federal Deposit Insurance Corporation ("FDIC") insurance coverage. Collateralized cash held by and in the name of paying agents, trustees and depositories amounted to \$2,472,947 in 2001 and \$523,939 in 2000. At August 31, 2001 and 2000, the Revenue Bond Enterprise Fund's cash and deposits in the State Treasury amounted to \$211,496 and \$839,010, respectively. These amounts were fully collateralized by securities held with a trustee in the State's name, as reported to the Department of Comptroller of Public Accounts of the State of Texas.

The types of investments in which the Department may invest are restricted by the provisions of the master bond indentures. The indentures generally allow for investments in direct obligations of or guaranteed by the U.S. Government, obligations, debentures, notes, or other evidences of indebtedness issued or guaranteed by agencies or intermediaries of the U.S. Government, obligations issued by public agencies or municipalities, obligations and general obligations of or guaranteed by the State, demand deposits, interest-bearing time deposits or certificates of deposit, repurchase agreements in U.S. Government securities, direct or general obligations of any state within the territorial U.S., investment agreements with any bank or financial institution, commercial paper, and guaranteed investment

contracts. Certain trust indentures restrict the Department from investing in certain of the aforementioned investments.

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$245,405,500 and \$227,796,522 of investment agreements/contracts at August 31, 2001 and 2000, respectively, which are unsecured. The Department considers these investment agreements/contracts to be Category 3. Under an agreement with the Department, the counterparty must maintain a rating on long-term, unsecured, unsubordinated debt obligations must be maintained at "AAA" by Standard & Poor's "Aaa" by Moody's, and/or other comparable high rating during the term of the agreement/contract. Should the rating fall below the requirement, the counterparty shall either substitute an acceptable replacement guarantor, deliver collateral, or repay the principal of and accrued but unpaid interest on the investment. A summary of investments by type at August 31, 2001 and 2000, is as follows (amounts in thousands):

	<u>Fair Value</u>	
	<u>2001</u>	<u>2000</u>
Repurchase and other investment agreements	\$ 881,467	\$ 280,717
Pass-through certificates	11,532	691,366
Other U.S. government securities	206,088	11,943
Mutual funds*	<u>9,473</u>	<u>3,601</u>
Total investments	<u>\$1,108,560</u>	<u>\$ 987,627</u>

*These constant-dollar money market mutual funds are not subject to categorization.

Repurchase agreements and other qualified investment agreements with a carrying amount of \$314,317,480 at August 31, 2001 and \$297,857,560 at August 31, 2000, are generally secured by U.S. government obligations or other marketable securities with market values in excess of the cost. At August 31, 2001 and 2000, the agreements were with the following counterparties (amounts in thousands):

<u>Counterparty</u>	<u>2001</u>	<u>2000</u>
AEGON	\$ 21,433	\$ -
AIG Matched Funding Corporation	8,228	12,151
AMBAC Capital Funding	3,538	8,134
American International Group	21,589	
Assured Return Management	295	39,899
Bank of America	4,092	
Bayerishone Landesbk	89,176	2,936
Berkshire Hathaway	4,013	3,607
CDC Funding Corporation	5,315	3,106
CIBC Oppenheimer	64,922	39,962
Citicorp	2,546	2,660
Core States Bank	283	284
Finanacial Guaranty Insurance Corporation	39,541	46,061
Lehman Brothers	1,042	1,042
MBIA Investment	304	2,117
Paribas Corporation		26,387
Pacific Life Insurance	7,848	
Protective Life	1,781	1,781
Scott Fetzer Financial	1,000	1,000
Societe Generale	4,057	3,507
Transamerica Life	9,907	39,561
Trinity Funding Company	18,976	59,952
Westdeutsche Bank	4,432	3,712
	<u>\$ 314,318</u>	<u>\$ 297,859</u>

(3) RESTRICTED ASSETS

Mortgage-backed securities, loans receivable and real estate owned are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishment of funds and accounts for the segregation of assets and restricting the use

of bond proceeds and other funds in connection with each bond program. Such restricted assets, primarily investments, are as follows at August 31, 2001 (amounts in thousands):

<u>Program</u>	<u>Mortgage and Debt Service Reserve</u>	<u>Unspent Bond Proceeds</u>	<u>Revenue Fund</u>	<u>Self- Insurance</u>	<u>Rebate Fund</u>
Single-family	\$ 4,973	\$ 1,738	\$ 19,862	\$ 3,550	\$ 2,186
RMRB	419	104,790	14,701	401	
CHMRB			2,765		
Multifamily	7,694		1,334		
93 SF CHMRB			1,359		7
94/95 SF CHMRB			813		20
Commercial Paper					55
Total	<u>\$ 13,086</u>	<u>\$ 106,528</u>	<u>\$ 40,834</u>	<u>\$ 3,951</u>	<u>\$ 2,268</u>

Such restricted assets, primarily investments, are as follows at August 31, 2000 (amounts in thousands):

<u>Program</u>	<u>Mortgage and Debt Service Reserve</u>	<u>Unspent Bond Proceeds</u>	<u>Revenue Fund</u>	<u>Self- Insurance</u>	<u>Rebate Fund</u>
Single-family	\$ 5,752	\$ 6,525	\$ 35,542	\$ 3,598	\$ 2,072
RMRB	2,294	98,546	8,190	401	
GNMA					
CHMRB			3,252		
Multifamily	1,177		1,035		
93 SF CHMRB			1,022		7
94/95 SF CHMRB			782		12
Commercial Paper					86
Total	<u>\$ 9,223</u>	<u>\$ 105,071</u>	<u>\$ 49,823</u>	<u>\$ 3,999</u>	<u>\$ 2,177</u>

(4) LOANS RECEIVABLE

Loans receivable as of August 31, 2001 and 2000, consisted of the following (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Single-family loans	\$ 122,929	\$ 142,426
Multifamily loans	399,850	285,600
RMRB (1987 Series A) single-family loans	4,698	5,437
Miscellaneous loans	<u>301</u>	<u>129</u>
Total loans	527,778	433,592
Deferred commitment fees, net of accumulated amortization of \$37,705 in 2001 and \$37,316 in 2000	(2,742)	(3,132)
Allowance for estimated loan losses	<u>(3,879)</u>	<u>(7,150)</u>
Total	<u>\$ 521,157</u>	<u>\$ 423,310</u>

All of the loans made directly by the Department are secured by real estate properties located in the State of Texas.

Single-family loans are collateralized by first lien mortgages on the applicable real estate and (i) are federally insured or guaranteed, or (ii) are insured by a private mortgage insurer approved by the Department for the amount by which the loan exceeds 80% of the original appraised value.

Certain properties acquired through foreclosure are covered by mortgage pool insurance. The mortgage pool insurance covers the unpaid principal balance of the loan at the ultimate date of sale, delinquent interest up to the claim settlement date and certain other expenses.

The Single-family trust indenture requires the Department to obtain and maintain mortgage pool insurance on loans collateralizing each series of bonds issued under that trust indenture. Except with respect to four series, the requirement has been satisfied by purchasing and maintaining a mortgage pool insurance policy for each bond series. For loans collateralizing the other four series of bonds, the Department has entered into Mortgage Pool Self-insurance Fund Agreements ("Agreements") with the Trustee. The funding requirements of these Agreements have been met as of August 31, 2001.

Multifamily mortgage and lender loans are collateralized by first lien mortgages on the applicable housing developments, letters of credit, guarantees provided by third parties and collateralized mortgage obligations issued by federally chartered, privately owned corporations.

The activity in the allowance for estimated loan losses follows (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 7,150	\$ 6,646
Provision for estimated losses on loans	<u>(3,271)</u>	<u>504</u>
Balance at end of year	<u>\$ 3,879</u>	<u>\$ 7,150</u>

5. REAL ESTATE OWNED

Real estate owned for the Revenue Bond Enterprise Fund was as follows (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Real estate owned	\$ 208	\$ 289
Allowance for estimated losses	<u>(77)</u>	<u>(49)</u>
Real estate owned, net	<u>\$ 131</u>	<u>\$ 240</u>

The activity in the allowance for estimated losses follows (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 49	\$ 2
Amounts charged-off		(11)
Provision for losses on real estate owned	<u>28</u>	<u>58</u>
Balance at end of year	<u>\$ 77</u>	<u>\$ 49</u>

The provision for loss on real estate owned was recorded to adjust real estate owned to the estimated fair value less estimated costs of disposal.

6. BONDS PAYABLE

Bonds payable activity for the year ended August 31, 2001, consisted of the following (amounts in thousands):

	Original Face <u>Amount</u>	Balance August 31, <u>2000</u>	Additions/ <u>Accretions</u>	Maturities/ <u>Prepayments</u>	Balance August 31, <u>2001</u>	Final Maturity <u>Date</u>
Single-family:						
1991 Series A - 4.8% to 7.15%	\$81,605	\$ 20,185	\$ -	\$ 3,125	\$ 17,060	2013
1994 Series A/B - 8.1% to 9.5%	60,995	5,000			5,000	2016
1994 Series A - 7%	34,393	13,365	1,030	7,584	6,811	2015
1995 Series A - 4.15% to 6.15%	85,760	76,165		2,440	73,725	2027
1995 Series B - 4.95% to 5.4%	9,605	3,645		2,910	735	2009
1995 Series C - 6.44% to 7.76%	71,760	40,530		3,640	36,890	2008
1996 Series A - 4.5% to 6.3%	15,000	9,975			9,975	2029
1996 Series B - 5.5% to 6%	42,140	26,280		3,335	22,945	2017
1996 Series D - 5.45% to 6.25%	70,760	64,055		2,630	61,425	2029
1996 Series E - 3.9% to 6%	98,730	68,655		7,690	60,965	2018
1997 Series A - 5.25% to 5.80%	44,465	43,830		255	43,575	2030
1997 Series B - 5.45%	9,510	9,510			9,510	2016
1997 Series C - 6.80%	25,525	23,250		2,095	21,155	2030
1997 Series D - 5.65% to 5.70%	44,795	44,795			44,795	2030
1997 Series E - 4.50% to 5.00%	20,295	8,020		3,045	4,975	2016
1997 Series F - 6.77%	20,000	18,625		2,100	16,525	2030
		<u>475,885</u>	<u>1,030</u>	<u>40,849</u>	436,066	
Total principal amount						
Unamortized premium		257			144	
Unamortized discount and losses on refundings		<u>(5,546)</u>			<u>(4,812)</u>	
Total single-family		<u>470,596</u>			<u>431,398</u>	

	Original Face Amount	Balance August 31, 2000	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2001	Final Maturity Date
RMRB:						
1988 Series A - 6.5% to 7.6%	\$ 40,920	\$ 32,585	\$ -	\$ 1,050	\$ 31,535	2018
1989 Series A - 6.6% to 7.6%	44,000	4,680		2,395	2,285	2016
1989 Series B - 7.85%	45,000	5,130		2,570	2,560	2018
1998 Series A - 4.05% to 5.35%	102,055	100,450		2,965	97,485	2031
1998 Series B - 5.30%	14,300	14,080		125	13,955	2022
1999 Series A - 4.80% to 5.50%	25,615	22,080		2,585	19,495	2021
1999 Series B-1 - 6.32% to 5.50%	52,260	51,925		915	51,010	2032
1999 Series C - 5.05% to 6.25%	12,150	12,150			12,150	2024
1999 Series D - 4.30% to 6.25%	26,355	25,170		3,060	22,110	2021
2000 Series A - 5.10% to 6.30%	50,000	50,000		225	49,775	2031
2000 Series B - 5.70%	82,975		82,975	15	82,960	2033
2000 Series C - 5.85% to 5.82%	13,675		13,675	5	13,670	2025
2000 Series D - 4.55% to 5.85%	18,265		18,265		18,265	2020
2000 Series E - 7.45%	10,000		10,000		10,000	2033
Total principal amount		318,250	124,915	15,910	427,255	
Unamortized premium		1,428			1,876	
Unamortized disc./loss on refund		(2,201)			(1,990)	
Total RMRB		317,477			427,141	
CHMRB:						
1991 Series A - 5.25% to 6.95%	36,000	16,125		1,665	14,460	2023
1992 Series A and B - linked rate averaging 6.90%	59,500	6,800		6,800		2024
1992 Series C - linked rate averaging 6.90%	72,700	72,700		2,200	70,500	2024
Total principal		95,625	-	10,665	84,960	
Plus unamortized premium		2,002			1,868	
Total CHMRB		97,627			86,828	
SF MRB CHMRB						
1993 Series A - 5.85%	11,695	7,290		850	6,440	2026
1993 Series B - 6.62%	15,000	9,355		1,170	8,185	2026
1993 Series C - 6.68%	15,000	10,010		1,225	8,785	2026
1993 Series D - 6.76%	8,000	4,755		590	4,165	2026
1993 Series E - 6.85%	8,780	3,955		565	3,390	2026
1994 Series A - 6.85%	35,395	26,275		1,965	24,310	2027
1994 Series B - 6.4%	33,385	24,920		2,505	22,415	2027
1994 Series C - 6.25%	15,360	12,215		850	11,365	2027
1995 MRRB Series A - 6.26%	5,825	1,945		635	1,310	2016
1995 MRRB Series B - 5.7%	2,030					2011
Total SF MRB CHMRB		100,720	-	10,355	90,365	

	<u>Original Face Amount</u>	<u>Balance August 31, 2000</u>	<u>Additions Accretions</u>	<u>Maturities/ Prepayment</u>	<u>Balance August 31, 2001</u>	<u>Final Maturity Date</u>
Multifamily:						
1984 Series (Allied Bank Private Placement - Summer Bend at Las Colinas) - variable rate currently at 8%	\$ 10,100	\$ 8,360	\$ -	\$ 180	\$ 8,180	2023
1987 Series (South Texas Rental Housing) - 9.5%	1,400	1,064		48	1,016	2013
1993 Series A and B Refunding (High Point III Development/Remington Hill Development)	26,370	12,490			12,490	2023
1993 Residential Rental (National Center) - 3.3% to 5.89%	16,775	15,145		315	14,830	2024
1996 Series A and B (Brighton's Mark) - 6.13%	9,748	8,075			8,075	2026
1996 Series A and B (Marks of Las Colinas) - 5.56%	14,870	14,870			14,870	2026
1996 Series A and B (Braxton's Mark) - 5.81%	14,274	14,274			14,274	2026
1996 Series A, B, C and D (Dallas-Fort Worth) - 6% to 10%	22,150	21,205		315	20,890	2026
1996 Series A, B, C and D (Harbors and Plumtree) - 5.9% to 10%	13,050	12,410		180	12,230	2026
1996 Series A and B (NHP Foundation) - 5.50% to 6.4%	27,560	26,335		420	25,915	2027
1997 Series (Meadow Ridge) 5.05% to 5.55%	13,575	13,575		155	13,420	2030
1998 Series (Pebble Brook) - 4.95% to 5.60%	10,900	10,900		65	10,835	2031
1998 Series A, B and C (Residence Oaks) - 5.98% to 7.18%	8,200	8,200		52	8,148	2031
1998 Series (Volente) - 5.00% to 5.63%	10,850	10,850		65	10,785	2031
1998 Series (Dallas - Oxford Rfdg.) - 7.25%	10,300	10,300			10,300	2018
1998 Series (Greens) - 5.2% to 6.03%	13,500	13,500		70	13,430	2031
1999 Series (Mayfield) - 5.7% to 7.25%	11,445	11,445			11,445	2031
1999 Series (Woodglen Village) - 7.38% to 8.25%	10,660	10,660			10,660	2040
2000 Series (Timber Point) - Variable rate	8,100	8,100			8,100	2032
2000 Series (Oaks @ Hampton) - 7.20% to 9.00%	10,060	10,060			10,060	2040
2000 Series (Deerwood) - 5.25% to 6.40%	6,435	6,435			6,435	2033
2000 Series (Creek Point) - Variable rate	7,200	7,200			7,200	2032
2000 Series A/B (Parks @ Westmoreland) - 7.20% to 9.00%	9,990	9,990			9,990	2040
2000 Series (Honeycreek) - 7.63% to 8.15%	20,485	20,485			20,485	2035
2000 MF Series A-C (Highland Meadow Apts) - 6.75% - 8%	13,500		13,500		13,500	2033
2000 MF Series A/B (Greenbridge) - 7.4% - 10%	20,085		20,085		20,085	2041
2000 MF Series A-C (Collingham Park) - 6.72% - 7.72%	13,500		13,500		13,500	2041
2000 MF Series A/B (Williams Run) - 7.65% - 9.25%	12,850		12,850		12,850	2041

	<u>Original Face Amount</u>	<u>Balance August 31, 2000</u>	<u>Additions Accretions</u>	<u>Maturities/ Prepayment</u>	<u>Balance August 31, 2001</u>	<u>Final Maturity Date</u>
2000 MF Series A/B (Red Hills Villas) - 8.4% - 9.5%	\$ 10,300	\$ -	10,300	\$ 32	\$ 10,268	2041
2001 MF Series (Bluffview Senior Apts) - 7.65%	10,700		10,700		10,700	2041
2001 MF Series (Knollwood Villas Apts) - 7.65%	13,750		13,750		13,750	2035
2001 MF Series (Skyway Villas) - 6.0% - 6.5%	13,250		13,250		13,250	2041
2001 MF Series A/B (Cobb Park) - 6.77%	7,785		<u>7,785</u>		<u>7,785</u>	
Total principal amount		285,928	<u>\$115,720</u>	<u>\$ 4,541</u>	967,877	
Unamortized discount		<u>(111)</u>			<u>(104)</u>	
Total Multifamily		<u>285,817</u>			<u>967,773</u>	
Total		<u>\$ 1,272,237</u>			<u>\$ 1,435,397</u>	

Proceeds from the issuance of bonds under the Single-family and RMRB Series 1987A programs were used to acquire loans. Proceeds from the issuance of bonds under GNMA, CHMRB and remaining RMRB programs were used to acquire pass-through certificates backed by mortgage loans. Pass-through certificates were purchased with proceeds from the Multifamily 1985 Series G. Proceeds from the remaining Multifamily bond issues were used to finance mortgage loans.

Interest on bonds is payable periodically, except for capital appreciation bonds, on which interest is compounded semiannually and payable at maturity or upon redemption.

The Single-Family, RMRB, GNMA and CHMRB bonds are collateralized by the revenues and assets pledged under the trust indentures, primarily single-family mortgage loans, mortgage-backed securities and investments. The multifamily bonds are collateralized by varying methods, including, but not limited to, the mortgage loans on the applicable housing developments, certificates of deposit, letters of credit, guarantees provided by third parties and collateralized mortgage obligations issued by federally chartered, privately owned corporations.

The trust indentures contain positive and negative covenants. Events of default include the following: failure to make timely payment of both principal and interest on any outstanding bond; failure to make timely payment of any other monies required to be paid to the Trustee; and non-performance or non-observance of any other covenants, agreements or conditions contained in the indentures. Management believes they are in compliance with the covenants of the indentures.

There were no refundings during fiscal year 2001. However, during fiscal year 2000, the department initiated a refunding of debt. The 1989 GNMA Series A&B bonds were legally defeased with the proceeds of the 1999 Residential Mortgage Revenue Bonds Series D. This refunding transaction resulted in a deferred loss of \$965,625, which will be recognized over the life of the new debt issuance, in accordance with GASB Statement No. 23. During the current period, the Revenue Enterprise Bond Fund recognized \$30,195 of amortization. The Revenue Bond Enterprise Fund recognized an economic gain of approximately \$7,088,000 from the refunding transaction. In addition, the gross cash flow resulting from this refunding transaction amounted to approximately \$21,431,000.

Bond contractual maturities (principal only) at August 31, 2001, are as follows (amounts in thousands):

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 3,520	\$ 2,655	\$ 2,785	\$ 10,655	\$ 3,050	\$ 413,401	\$ 436,066
RMRB	2,245	4,385	4,310	16,555	3,950	395,810	427,255
CHMRB	245					175,080	175,325
Multifamily	<u>2,334</u>	<u>2,771</u>	<u>3,077</u>	<u>3,579</u>	<u>3,858</u>	<u>384,132</u>	<u>399,751</u>
Total	<u>\$ 8,344</u>	<u>\$ 9,811</u>	<u>\$ 10,172</u>	<u>\$ 30,789</u>	<u>\$ 10,858</u>	<u>\$ 1,368,423</u>	<u>\$ 1,438,397</u>

Actual maturities will differ from contractual maturities as the Department has the right to call or prepay obligations with or without call or prepayment penalties as the related loans and mortgage-backed securities mature or prepay.

Bond maturities (principal and interest) at August 31, 2001, are as follows (amounts in thousands):

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 29,849	\$ 28,855	\$ 28,848	\$ 36,299	\$ 28,262	\$ 1,637,043	\$ 1,789,156
RMRB	27,279	29,251	28,966	40,888	27,486	783,374	937,244
CHMRB	11,941	11,686	11,686	11,686	11,686	391,079	449,764
Multifamily	<u>36,177</u>	<u>36,459</u>	<u>36,490</u>	<u>36,701</u>	<u>36,652</u>	<u>995,395</u>	<u>1,177,874</u>
Total	<u>\$ 105,246</u>	<u>\$ 106,251</u>	<u>\$ 105,990</u>	<u>\$ 125,574</u>	<u>\$ 104,086</u>	<u>\$ 3,806,891</u>	<u>\$ 4,354,038</u>

Deferred issuance costs at August 31, 2001 and 2000, consist of the following (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Deferred issuance costs	\$ 26,296	\$ 24,862
Less accumulated amortization	<u>(14,288)</u>	<u>(13,147)</u>
	<u>\$ 12,008</u>	<u>\$ 11,715</u>

7. EMPLOYEE BENEFITS

Plan Description - The Department contributes to the Employees Retirement System of Texas (the "System"), a cost-sharing multiple employer defined benefit plan. The Department has implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which standardizes financial reporting for pensions by state and local government employers. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Subtitle B, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207 or by calling (512) 476-6431.

Funding Policy - Under provisions in State law, plan members are required to contribute 6.0% of their annual covered salary and the Department contributes an amount equal to 6.0% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ending August 31, 2001, 2000, and 1999 were \$788,309, \$849,652, and \$878,232, respectively, equal to the required contributions for each year.

8. SEGMENT FINANCIAL DATA

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 2001, and for the year then ended is as follows (amounts in thousands):

Programs	2001				
	Operating Revenues	Depreciation/ Amortization	Operating Income (Loss)	Operating Transfers In (Out)	Net Income (Loss)
Single-family	\$ 55,802	\$ 271	\$ 25,995	\$ 804	\$ 26,156
RMRB	38,243	212	12,751	(501)	12,014
CHMRB	10,191	29	3,869	(1,026)	2,877
Multifamily	23,657	15	663	(633)	30
GNMA/CHMRB	3,728	11	1,538	(53)	1,448
SF CHMRB 1994/1995	7,163	14	3,035	(125)	2,878
Commercial Paper	387		(27)	21	(6)
Operating	<u>3,273</u>	<u>229</u>	<u>(2,664)</u>	<u>2,853</u>	<u>189</u>
Total	<u>\$ 142,444</u>	<u>\$ 781</u>	<u>\$ 45,160</u>	<u>\$ 1,340</u>	<u>\$ 45,586</u>

Programs	2001				
	Net Working Capital	Total Assets	Fund Equity	Bonds Payable	PP&E Additions
Single-family	\$ 39,396	\$ 501,036	\$ 51,099	\$ 431,398	\$
RMRB	29,468	444,350	9,137	427,141	
CHMRB	1,073	90,270	1,730	86,828	
Multifamily	20,381	521,753	1,356	399,647	
GNMA/CHMRB	1,369	32,378	1,244	30,965	
SF CHMRB 1994/1995	291	62,068	2,327	59,400	
Commercial Paper	70	15,714	15		
Operating	<u>11,150</u>	<u>13,223</u>	<u>12,431</u>		<u>95</u>
Total	<u>\$ 103,198</u>	<u>\$ 1,680,792</u>	<u>\$ 79,339</u>	<u>\$ 1,435,379</u>	<u>\$ 95</u>

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 2000, and for the year then ended is as follows (amounts in thousands):

<u>Programs</u>	2000				
	<u>Operating Revenues</u>	<u>Depreciation/ Amortization</u>	<u>Operating Income (Loss)</u>	<u>Operating Transfers In (Out)</u>	<u>Net Income (Loss)</u>
Single-family	\$ 37,950	\$ 325	\$ 4,766	\$ (3,922)	\$ (7,073)
RMRB	20,078	131	2,539	2,194	(5,473)
GNMA	594	7	16	(1,050)	(1,146)
CHMRB	10,072	38	1,555	(1,970)	(3,458)
Multifamily	15,104	14	535	(574)	(39)
GNMA/CHMRB	2,578	13	110	(65)	(1,031)
SF CHMRB 1994/1995	4,763	15	250	(112)	(1,591)
Commercial Paper	499		(2)	12	10
Operating	<u>1,318</u>	<u>229</u>	<u>(3,958)</u>	<u>5,546</u>	<u>1,588</u>
Total	<u>\$ 92,956</u>	<u>\$ 772</u>	<u>\$ 5,811</u>	<u>\$ 59</u>	<u>\$ (18,213)</u>

<u>Programs</u>	2000				
	<u>Net Working Capital</u>	<u>Total Assets</u>	<u>Fund Equity</u>	<u>Bonds Payable</u>	<u>PP&E Additions</u>
Single-family	\$ 34,962	\$ 515,867	\$ 24,944	\$ 470,597	\$ -
RMRB	52,021	321,282	(2,878)	317,476	
GNMA					
CHMRB	2,132	98,115	(1,148)	97,627	
Multifamily	14,935	356,921	1,326	285,817	
GNMA/CHMRB	1,036	35,355	(204)	35,365	
SF CHMRB 1994/1995	542	65,178	(551)	65,355	
Commercial Paper	107	32,204	21		
Operating	<u>10,889</u>	<u>12,973</u>	<u>12,243</u>		<u>64</u>
Total	<u>\$ 116,624</u>	<u>\$ 1,437,895</u>	<u>\$ 33,753</u>	<u>\$ 1,272,237</u>	<u>\$ 64</u>

9. COMMITMENTS AND CONTINGENCIES

The Department is a defendant in legal actions arising from transactions and activities conducted in the ordinary course of business. Management, after consultation with legal counsel, believes that the aggregate liabilities, if any, will not be material to the financial statements.

10. RISK FINANCING AND RELATED INSURANCE ISSUES

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; efforts and omissions; and natural disasters. It is the Department's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. Currently there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities, except the Department carried Public Official Liabilities

Insurance coverage in the amount of \$10,000,000, errors and omissions insurance of \$300,000 related to loan servicing for others and \$300,000 public employee fidelity bond.

11. SUBSEQUENT EVENTS

On October 5, 2001, the Department issued \$100,525,000 in single family mortgage revenue bonds made up as follows:

\$52,715,000	RMRB Series 2001A (AMT)
\$15,585,000	RMRB Series 2001B (AMT)
\$32,225,000	RMRB Series 2001C (Non-AMT)

The Series 2001A Bonds were issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates backed up by qualifying FHA-insured or VA- or RHS-guaranteed mortgage loans, or conventional loans made to eligible borrowers for single-family residences located in the State of Texas. The Series 2001B Bonds were issued for the purpose of refunding and redeeming an equal amount of the Department's Single Family Mortgage Revenue Tax-Exempt Commercial Paper Notes Series A (AMT), thereby making additional funds available to acquire Mortgage Certificates. The proceeds of the Series 2001C Bonds together with other available Department funds will be used for the purpose of refunding and redeeming a portion of the Department's 1989A Residential Mortgage Revenue Bonds (RMRB).

On October 24, 2001, The Department issued \$54,600,000 in Single Family Mortgage Revenue Bonds made up as follows:

\$ 300,000	Series 2001D (AMT)
\$54,300,000	Series 2001E (AMT)

The Series 2001D and E Bonds were issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured or VA- or RHS-guaranteed mortgage loans, or conventional loans made to eligible borrowers for single-family residences located in the State of Texas.

\$8,375,000	MF 2000 Series A
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On September 13, 2001, the Department issued \$14,310,000 in multifamily revenue bonds (Meridian Apartments) made up as follows:

\$8,130,000	MF 2001 Series A-1
\$3,315,000	MF 2001 Series A-2
\$2,865,000	MF 2001 Series B

On September 13, 2001, the Department issued \$14,365,000 in multifamily revenue bonds (Wildwood Branch Apartments) made up as follows:

\$8,920,000	MF 2001 Series A-1
\$2,570,000	MF 2001 Series A-2
\$2,875,000	MF 2001 Series B

The multifamily bonds were issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily residential rental developments. Greens Road Apartments will be located in Houston, Texas. Meridian and Wildwood Branch will be located in Fort Worth, Texas.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

SCHEDULE I

SUPPLEMENTAL SCHEDULE - BALANCE SHEET INFORMATION BY PROGRAM
AUGUST 31, 2001

ASSETS	Single-Family Program	RMRB Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
Cash and temporary investments:									
Cash on hand	\$ 27,240,233	\$ -	\$ -	\$ -	\$ 1,950,895	\$ -	\$ -	\$ 200	\$ 200
Cash in bank		(1,130,011)						7,469	28,068,586
Cash in State Treasury	22,676,035	31,790,752	1,366,124	1,053,848	19,818,814	271,932	15,640,362	211,496	211,496
Short-term investments	325,570,109	401,315,114	30,588,850	87,750,757	98,286,069	61,137,008		11,293,679	103,911,546
Investments, net									1,004,647,907
Receivables:									
Interest receivable	2,872,017	2,998,553	170,601	491,235	2,160,705	342,826	74,089	15,730	9,125,756
Note receivable								1,000,000	1,000,000
Due from Other Funds								140	140
Mortgage loans receivable, net	117,532,261	4,613,436			398,710,510			301,136	521,157,343
Consumable inventories								3,040	3,040
Real estate owned, net	132,609	(1,239)							131,370
Fixed assets:									
Furniture and equipment								1,671,246	1,671,246
Less accumulated depreciation								(1,340,064)	(1,340,064)
Deferred issuance costs, net	4,947,742	4,763,181	252,742	974,419	753,844	315,838			12,007,766
Other assets	64,461	6			72,294			58,475	195,236
TOTAL ASSETS	\$501,035,467	\$444,349,792	\$32,378,317	\$90,270,259	\$521,753,131	\$62,067,604	\$15,714,451	\$13,222,547	\$1,680,791,568
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable	\$ 101,900	\$ 13,431	\$ -	\$ -	\$ 691	\$ -	\$ -	\$ 377,465	\$ 493,487
Deferred revenues	2,829,906	2,624,756		1,240,485				4,495	6,695,147
Due to Other Funds								4,495	4,495
Due to Other Agencies								232	232
Revenue bonds payable	431,398,543	427,140,993	30,965,000	86,828,168	399,646,543	59,400,000	15,585,000		1,435,379,247
Commercial paper notes payable	13,288,636	4,177,469	168,272	471,994	3,549,669	324,343	59,063		15,585,000
Accrued interest payable								338,203	22,039,446
Employees compensable leave	2,316,879	1,256,532	742		117,200,655	16,332	55,363	70,997	338,203
Other liabilities									120,917,500
Total liabilities	449,935,864	435,213,181	31,134,014	88,540,647	520,397,558	59,740,675	15,699,426	791,392	1,601,452,757
Fund equity retained earnings, restricted	51,099,603	9,136,611	1,244,303	1,729,612	1,355,573	2,326,929	15,025	12,431,155	79,338,811
Total liabilities and fund equity	\$501,035,467	\$444,349,792	\$32,378,317	\$90,270,259	\$521,753,131	\$62,067,604	\$15,714,451	\$13,222,547	\$1,680,791,568

See accompanying independent auditors' report.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

SCHEDULE 2

SUPPLEMENTAL SCHEDULE - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY INFORMATION BY PROGRAM
YEAR ENDED AUGUST 31, 2001

	Single-Family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
Operating revenues:										
Interest and investment income	\$ 33,584,368	\$ 27,816,066	\$ -	\$ 2,291,192	\$ 6,506,078	\$ 23,038,867	\$ 4,368,859	\$ 387,204	\$ 693,925	\$ 98,686,559
Realized and unrealized gains on investments	18,001,906	9,573,027		1,436,509	3,595,825		2,793,892			35,401,159
Other operating revenues	4,215,418	854,114			89,256	618,387			2,578,932	8,356,107
Total operating revenues	55,801,692	38,243,207	-	3,727,701	10,191,159	23,657,254	7,162,751	387,204	3,272,857	142,443,825
Operating expenses:										
Salaries and wages									3,018,868	3,018,868
Payroll related costs									583,784	583,784
Professional fees and services	79,000	9,500		5,000	3,000	38,446	3,000		232,344	370,290
Travel									72,448	72,448
Materials and supplies									128,643	128,643
Communication and utilities									93,290	93,290
Repairs and maintenance									303,668	303,668
Rentals and leases									492,056	492,056
Printing and reproduction	271,437	212,335		11,205	28,545	14,963	13,526		35,836	35,836
Depreciation and amortization									229,259	229,259
Claims and judgments	27,852,710	24,549,292		2,163,445	6,182,304	22,979,283	4,087,842	372,718	12,760	88,187,594
Interest expense	1,603,730	721,353		10,149	108,213	218	23,030	3,049	733,729	3,203,471
Other operating expenses										
Total other expenses	29,806,877	25,492,480	-	2,189,799	6,322,062	22,994,464	4,127,398	414,213	5,936,685	97,283,978
Operating income (loss)	25,994,815	12,750,727		1,537,902	3,869,097	662,790	3,035,353	(27,009)	(2,663,828)	45,159,847
Gain (loss) on early extinguishment of debt	(642,656)	(235,890)		(36,742)	33,905	2	(33,011)			(914,392)
Operating transfer, net	803,661	(500,706)		(53,307)	(1,025,817)	(632,937)	(124,561)	21,323	2,852,479	1,340,135
Net income (loss)	26,155,820	12,014,131		1,447,853	2,877,185	29,655	2,877,781	(5,686)	188,651	47,580,598
Fund equity (deficit), beginning of year	24,943,783	(2,877,520)		(203,550)	(1,147,573)	1,325,718	(550,852)	20,711	12,242,504	33,753,221
Fund equity, end of year	\$ 51,099,603	\$ 9,136,611	\$ -	\$ 1,244,303	\$ 1,729,612	\$ 1,355,573	\$ 2,326,929	\$ 15,025	\$ 12,431,155	\$ 79,338,811

See accompanying independent auditors' report.

MISCELLANEOUS BOND INFORMATION
AUGUST 31, 2001
(Amounts in Thousands)

Description of Issue	Original Principal Bonds Issued To Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1991 Single-Family Series A	\$ 81,605	4.80%	7.15%	1992	2012	09/01/01
1994 Jr Lien Mtg Rev Bonds Series A	5,000	8.10%	8.10%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	38,991	7.00%	7.00%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series B	55,995	9.50%	9.50%	2016	2016	09/01/04
1995 Single-Family Series A	85,760	4.15%	6.15%	1997	2027	09/01/05
1995 Single-Family Series B	9,605	4.95%	5.40%	2004	2008	09/01/05
1995 Single-Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/05
1996 Single-Family Series A	15,000	4.50%	6.30%	2001	2029	09/01/06
1996 Single-Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/06
1996 Single-Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/06
1996 Single-Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/06
1996 Single-Family Series E	98,730	3.90%	6.00%	1997	2017	09/01/06
1997 Single-Family Series A	44,465	5.25%	5.80%	2013	2028	09/01/07
1997 Single-Family Series B	9,510	5.45%	5.45%	2019	2019	09/01/07
1997 Single-Family Series C	25,525	6.80%	6.80%	2029	2029	09/01/07
1997 Single-Family Series D	44,795	5.65%	5.70%	2029	2029	09/01/07
1997 Single-Family Series E	20,295	4.50%	5.00%	2007	2016	09/01/07
1997 Single-Family Series F	20,000	6.77%	6.77%	2029	2020	09/01/07
1988 RMRB Series A	40,920	6.50%	7.60%	1990	2018	07/01/00
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/99
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/04
1998 RMRB Series A	102,055	4.05%	5.35%	2002	2031	01/01/09
1998 RMRB Series B	14,300	5.30%	5.30%	2022	2022	01/01/09
1999 RMRB Series A	25,615	4.80%	5.50%	2018	2021	01/01/09
1998 RMRB Series B-1	52,260	6.32%	7.10%	2021	2032	07/01/09
1999 RMRB Series B-2 (COBs)	50,000	3.90%	3.90%	2033	2033	05/01/00
1999 RMRB Series C	12,150	5.05%	6.25%	2003	2024	07/01/09
1999 RMRB Series D	26,355	4.30%	6.25%	2000	2021	07/01/09
2000 RMRB Series A	50,000	5.10%	6.30%	2003	2031	07/01/10
2000 RMRB Series B	82,975	5.70%	5.70%	2005	2033	07/01/10
2000 RMRB Series C	13,675	5.82%	5.85%	2011	2025	07/01/10
2000 RMRB Series D	18,265	4.55%	5.85%	2003	2020	07/01/10
2000 RMRB Series E	10,000	7.45%	7.45%	2033	2033	07/01/10
1989 GNMA Series A	72,000	(a)		2019	2019	06/01/99
1989 GNMA Series B	48,250	(b)		2021	2021	12/01/99
1990 Coll Home Mtg Rev Bds Series A	46,600	6.30%	7.35%	1993	2011	07/01/00
1990 Coll Home Mtg Rev Bds Series B	93,445	7.80%	7.80%	2023	2023	07/01/00
1991 Coll Home Mtg Rev Bds Series A	36,000	5.25%	6.95%	1994	2023	01/01/02
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.27%	2023	2023	05/04/95
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2023	05/04/95
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2024	2024	05/04/95
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/04
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/04
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/04
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/04
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/04
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/05
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/05
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/05
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/05
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/05
TOTAL SINGLE-FAMILY BONDS	1,908,471					

(Continued)

MISCELLANEOUS BOND INFORMATION
AUGUST 31, 2001
(Amounts in Thousands)

Description of Issue	Original Principal Bonds Issued To Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1984 MF Private Placement (Summer Bend)	\$ 10,100	(c)		1985	2022	09/01/86
1987 South Texas Rental Housing	1,400	9.50%	9.50%	1988	2012	02/01/88
1993 MF Series A&B (RemHill/HighPt Ref)	26,370	(Weekly rates)		2023	2023	02/01/00
1993 Res Ren Project Revenue Bonds	16,775	3.30%	5.80%	1994	2024	01/01/04
1996 MF Series A&B (Brighton's Mark)	10,174	6.13%	6.13%	2026	2026	01/01/03
1996 MF Series A&B (Las Colinas)	15,469	5.65%	5.65%	2026	2026	01/01/03
1996 MF Series A&B (Braxton's Mark)	14,867	5.81%	5.81%	2026	2026	01/01/03
1996 MF series A-D (DFW Pool)	22,150	6.00%	10.00%	1997	2026	07/01/06
1996 MF Series A-D (Harbors & Plumtree)	13,050	5.90%	10.00%	1997	2026	07/01/06
1996 MF Series A&B (NHP Foundation)	27,560	5.50%	6.40%	1997	2027	07/01/07
1997 MF Series (Meadow Ridge)	13,575	5.05%	5.55%	2001	2030	02/01/01
1999 MF Series (Pebble Brook)	10,900	4.95%	5.60%	2001	2030	06/01/01
1998 MF Series A-C (Residence Oaks)	8,200	5.98%	7.18%	2001	2030	05/01/01
1998 MF Series (Volente)	10,850	5.00%	5.63%	2001	2031	07/01/01
1999 MF Series (Dallas-Oxford Refndg)	10,300	7.25%	7.25%	2018	2018	01/01/04
1998 MF Series (Greens of Hickory Trail)	13,500	5.20%	6.03%	2001	2030	09/01/08
1999 MF Series (Mayfield)	11,445	5.70%	7.25%	2002	2031	05/01/02
1999 MF Series (Woodglen Village)	10,660	7.38%	8.25%	2002	2040	12/01/16
2000 MF Series (Timber Point Apts)	8,100	(variable rate)		2003	2032	07/01/00
2000 MF Series (Oaks @ Hampton)	10,060	7.20%	8.25%	2002	2032	03/01/17
2000 MF Series (Deerwood)	6,435	5.25%	6.40%	2003	2040	06/01/10
2000 MF Series (Creek Pt)	7,200	(variable rate)		2004	2033	07/01/00
2000 MF Series (Parks Westmoreland)	9,990	7.20%	9.00%	2002	2032	07/01/17
2000 MF Series (Honey Creek)	20,485	7.63%	8.15%	2004	2038	06/30/07
2000 MF Series A-C (Highland Meadow Apts)	13,500	6.75%	8.00%	2004	2033	05/01/19
2000 MF Series A/B (Greenbridge)	20,085	7.40%	10.00%	2003	2035	03/01/14
2000 MF Series A-C (Collingham Park)	13,500	6.72%	7.72%	2004	2041	05/01/19
2000 MF Series A/B (Williams Run)	12,850	7.65%	9.25%	2002	2041	01/01/11
2000 MF Series A/B (Red Hills Villas)	10,300	8.40%	9.50%	2003	2041	12/01/17
2001 MF Series (Bluffview Senior Apts)	10,700	7.65%	7.65%	2003	2041	05/01/18
2001 MF Series (Knollwood Villas Apts)	13,750	7.65%	7.65%	2003	2041	05/01/18
2001 MF Series (Skyway Villas)	13,250	6.00%	6.50%	2005	2035	12/01/11
2001 MF Series A/B (Cobb Park)	7,785	6.77%	6.77%	2003	2041	07/01/18
TOTAL MULTIFAMILY BONDS	• 425,335					
TOTAL BONDS ISSUED	<u>\$2,333,806</u>					

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

NOTES TO SCHEDULE 3 - (Unaudited)
AUGUST 31, 2001 (Amounts in Thousands)

FOOTNOTES:

- a. Interest payment is equal to the sum of all interest payments received with respect to the Mortgage Certificates, less the Agency Expense amount; and all earnings resulting from the investment of moneys on deposit in Funds established by the Indenture (not including the Cost of Issuance, Expense and Rebate Funds), less the rebate amount.
- b. Interest payable on the bonds is an amount equal to the sum of all amounts transferred to the Interest Fund pursuant to the Trust Indenture which amount generally represents certain capitalized interest amounts, amounts representing interest on the GNMA Certificates, and certain investment earnings.
- c. Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.

CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2001

Description of Issue	Bonds	Bonds Issued	Bonds	Bonds	Bonds
	Outstanding September 1, 2000		Matured or Retired	Refunded or Extinguished	Outstanding August 31, 2001
1991 Single-family Series A	\$ 20,185,000	\$ -	\$ 1,930,000	\$ 1,195,000	\$ 17,060,000
1994 Jr. Lien Mtg Rev Bonds Series A	5,000,000				5,000,000
Series A (Cab's)	13,365,469	1,029,511		7,583,668	6,811,312
1995 Single-family Series A	76,165,000		465,000	1,975,000	73,725,000
1995 Single-family Series B	3,645,000			2,910,000	735,000
1995 Single-family Series C	40,530,000			3,640,000	36,890,000
1996 Single-family Series A	9,975,000				9,975,000
1996 Single-family Series B	26,280,000			3,335,000	22,945,000
1996 Single-family Series D	64,055,000			2,630,000	61,425,000
1996 Single-family Series E	68,655,000		2,485,000	5,205,000	60,965,000
1997 Single-family Series A	43,830,000			255,000	43,575,000
1997 Single-family Series B	9,510,000				9,510,000
1997 Single-family Series C	23,250,000			2,095,000	21,155,000
1997 Single-family Series D	44,795,000				44,795,000
1997 Single-family Series E	8,020,000			3,045,000	4,975,000
1997 Single-family Series F	18,625,000			2,100,000	16,525,000
1988 RMRB Series A	32,585,000		595,000	455,000	31,535,000
1989 RMRB Series A	4,680,000			2,395,000	2,285,000
1989 RMRB Series B	5,130,000			2,570,000	2,560,000
1998 RMRB Series A	100,450,000			2,965,000	97,485,000
1998 RMRB Series B	14,080,000			125,000	13,955,000
1999 RMRB Series A	22,080,000			2,585,000	19,495,000
1999 RMRB Series B-1	51,925,000			915,000	51,010,000
1999 RMRB Series C	12,150,000				12,150,000
1999 RMRB Series D	25,170,000		680,000	2,380,000	22,110,000
2000 RMRB Series A	50,000,000			225,000	49,775,000
2000 RMRB Series B		82,975,000		15,000	82,960,000
2000 RMRB Series C		13,675,000		5,000	13,670,000
2000 RMRB Series D		18,265,000			18,265,000
2000 RMRB Series E		10,000,000			10,000,000
1991 Coll Home Mtg Rev Bds Series A	16,125,000		255,000	1,410,000	14,460,000
1992 Coll Home Mtg Rev Bds Series B	6,800,000			6,800,000	-
1992 Coll Home Mtg Rev Bds Series C	72,700,000			2,200,000	70,500,000
1993 SF MRB CHMRB Series A	7,290,000			850,000	6,440,000
1993 SF MRB CHMRB Series B	9,355,000			1,170,000	8,185,000
1993 SF MRB CHMRB Series C	10,010,000			1,225,000	8,785,000
1993 SF MRB CHMRB Series D	4,755,000			590,000	4,165,000
1993 SF MRB CHMRB Series E	3,955,000			565,000	3,390,000
1994 SF MRB CHMRB Series A	26,275,000			1,965,000	24,310,000
1994 SF MRB CHMRB Series B	24,920,000			2,505,000	22,415,000
1994 SF MRB CHMRB Series C	12,215,000			850,000	11,365,000
1995 SF MRRB CHMRB Series A	1,945,000			635,000	1,310,000
TOTAL SINGLE-FAMILY BONDS	990,480,469	125,944,511	6,410,000	71,368,668	1,038,646,312

(Continued)

CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2001

Description of Issue	Bonds Outstanding September 1, 2000	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2001
1984 MF Private Placement (Summer Bend)	\$ 8,360,000	\$ -	\$ 180,000	\$ -	\$ 8,180,000
1987 MF South Texas Renal Housing	1,064,114		47,733		1,016,381
1993 MF Series A&B (RenHill/High Pt Ref)	12,490,000				12,490,000
1993 MF Res Ren Project Revenue Bonds	15,145,000		315,000		14,830,000
1996 MF Series A&B (Brighton's Mark)	8,075,000				8,075,000
1996 MF Series A&B (Las Colinas)	14,869,512				14,869,512
1996 MF Series A&B (Braxton's Mark)	14,273,700				14,273,700
1996 MF Series A-D (DFW Pool)	21,205,000		315,000		20,890,000
1996 MF Series A-D (Harbors & Plumtree)	12,410,000		180,000		12,230,000
1996 MF Series A&B (NHP Foundation)	26,335,000		420,000		25,915,000
1997 MF Series (Meadow Ridge)	13,575,000		155,000		13,420,000
1998 MF Series (Pebblebrook)	10,900,000		65,000		10,835,000
1998 MF Series A-C (Residence at the Oaks)	8,200,000		52,000		8,148,000
1998 MF Series (Volente)	10,850,000		65,000		10,785,000
1998 MF Series (Dallas-Oxford Rfdg.)	10,300,000				10,300,000
1998 MF Series A&B (Greens of Hickory Trail)	13,500,000		70,000		13,430,000
1999 MF Series A-C (Mayfield)	11,445,000				11,445,000
2000 MF Series (Woodglen Village)	10,660,000				10,660,000
2000 MF Series (Timber Point Apts.)	8,100,000				8,100,000
2000 MF Series (Oaks @ Hampton)	10,060,000				10,060,000
2000 MF Series (Deerwood Apts.)	6,435,000				6,435,000
2000 MF Series (Creek Point Apts.)	7,200,000				7,200,000
2000 MF Series A/B (Parks @ Westmoreland)	9,990,000				9,990,000
2000 MF Series (Honeycreek)	20,485,000				20,485,000
2000 MF Series A-C (Highland Meadow Apts)		13,500,000			13,500,000
2000 MF Series A/B (Greenbridge)		20,085,000			20,085,000
2000 MF Series A-C (Collingham Park)		13,500,000			13,500,000
2000 MF Series A/B (Williams Run)		12,850,000	31,584		12,818,416
2000 MF Series A/B (Red Hills Villas)		10,300,000			10,300,000
2001 MF Series (Bluffview Senior Apts)		10,700,000			10,700,000
2001 MF Series (Knollwood Villas Apts)		13,750,000			13,750,000
2001 MF Series (Skyway Villas)		13,250,000			13,250,000
2001 MF Series A/B (Cobb Park)		7,785,000			7,785,000
Total Multifamily Bonds	285,927,326	115,720,000	1,896,317	-	399,751,009
TOTAL BONDS ISSUED	\$1,276,407,795	\$241,664,511	\$ 8,306,317	\$ 71,368,668	\$1,438,397,321 (b)

Footnotes:

- (a) Bond accretions
(b) Bonds outstanding balance at August 31, 2001, does not include unamortized premium or discount.

Bonds outstanding per schedule	\$1,438,397,321
Unamortized premium (discount)	
Single-family	144,356
RMRB	1,876,191
CHMRB	1,868,168
Multifamily	(104,464)
Unamortized deferred loss on refunding:	
Single-family	(4,812,127)
RMRB	(1,990,198)
Bonds outstanding per Exhibit I	\$1,435,379,247

(Continued)

DEBT SERVICE REQUIREMENTS
AUGUST 31, 2001
(AMOUNTS IN THOUSANDS)

Description	2002	2003	2004	2005	2006	2007 and Beyond	Total Requirements
1991 Single-family Series A	\$ 2,088	\$ 1,133	\$ 1,133	\$ 8,617	\$ 590	\$ 9,485	\$ 23,046
1994 Jr. Lien Mtg Rev Bond Series A	405	405	405	405	405	15,456	17,481
1995 Single-family Series A	4,540	4,539	4,508	4,402	4,402	149,192	171,583
1995 Single-family Series B	38	38	68	172	174	438	928
1995 Single-family Series C	2,777	2,777	2,777	2,777	2,777	56,735	70,620
1996 Single-family Series A	628	628	628	628	628	23,791	26,931
1996 Single-family Series B	1,373	1,373	1,373	1,373	1,373	37,152	44,017
1996 Single-family Series D	3,749	3,749	3,749	3,749	3,749	138,945	157,690
1996 Single-family Series E	5,788	5,750	5,744	5,713	5,701	895,038	923,734
1997 Single-family Series A	2,454	2,454	2,454	2,454	2,454	88,753	101,023
1997 Single-family Series B	518	518	518	518	518	15,985	18,575
1997 Single-family Series C	1,439	1,439	1,439	1,439	1,439	54,252	61,447
1997 Single-family Series D	2,542	2,542	2,542	2,542	2,542	102,628	115,338
1997 Single-family Series E	249	249	249	249	249	7,340	8,585
1997 Single-family Series F	1,261	1,261	1,261	1,261	1,261	41,853	48,158
Total Single-Family Bonds	29,849	28,855	28,848	36,299	28,262	1,637,043	1,789,156
1988 Residential Mtg Revenue Bonds, Series A	3,019	3,020	2,284	2,284	2,284	49,366	62,257
1989 Residential Mtg Revenue Bonds, Series A	172	172	172	172	172	3,716	4,576
1989 Residential Mtg Revenue Bonds, Series B	201	201	201	201	201	4,938	5,943
1998 Residential Mtg Revenue Bonds, Series A	5,760	6,671	6,661	6,650	6,654	174,121	206,517
1998 Residential Mtg Revenue Bonds, Series B	740	740	740	740	740	25,429	29,129
1999 Residential Mtg Revenue Bonds, Series A	973	973	973	973	973	31,744	36,609
1999 Residential Mtg Revenue Bonds, Series B-1	3,370	3,370	3,370	3,370	3,370	123,427	140,277
1999 Residential Mtg Revenue Bonds C	749	839	853	863	856	23,418	27,578
1999 Residential Mtg Revenue Bonds D	1,963	1,964	1,963	1,974	1,144	30,793	39,801
2000 Residential Mtg Revenue Bonds A	3,019	3,572	3,568	3,576	3,576	109,383	126,694
2000 Residential Mtg Revenue Bonds B	4,821	4,821	4,821	16,704	4,122	142,015	177,304
2000 Residential Mtg Revenue Bonds C	798	798	798	798	798	25,672	29,662
2000 Residential Mtg Revenue Bonds D	949	1,365	1,817	1,838	1,851	19,982	27,802
2000 Residential Mtg Revenue Bonds E	745	745	745	745	745	19,370	23,095
Total Residential Mtg Revenue Bonds	27,279	29,251	28,966	40,888	27,486	783,374	937,244
1991 Coll Home Mtg Rev Bonds, Series A	1,232	977	977	977	977	28,274	33,414
1992 Coll Home Mtg Rev Bonds, Series B	4,797	4,797	4,797	4,797	4,797	156,846	180,831
1992 Coll Home Mtg Rev Bonds, Series C	4,797	4,797	4,797	4,797	4,797	156,846	180,831
Total COLL Home Mtg Revenue Bonds	6,029	5,774	5,774	5,774	5,774	185,120	214,245
1993 Single-Family CHMRB, Series A	377	377	377	377	377	13,666	15,551
1993 Single-Family CHMRB, Series B	542	542	542	542	542	18,573	21,283
1993 Single-Family CHMRB, Series C	587	587	587	587	587	20,036	22,971
1993 Single-Family CHMRB, Series D	282	282	282	282	282	9,570	10,980
1993 Single-Family CHMRB, Series E	232	232	232	232	232	7,837	8,997
Total Single-Family CHMRB 1993	2,020	2,020	2,020	2,020	2,020	69,682	79,782

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND

SCHEDULE 3

DEBT SERVICE REQUIREMENTS
AUGUST 31, 2001

Description	2002	2003	2004	2005	2006	2007 and Beyond	Total Requirements
1994 Single-Family CHMRB, Series A	\$ 1,665	\$ 1,665	\$ 1,665	\$ 1,665	\$ 1,665	\$ 57,888	\$ 66,213
1994 Single-Family CHMRB, Series B	1,435	1,435	1,435	1,435	1,435	51,354	58,529
1994 Single-Family CHMRB, Series C	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>	<u>24,973</u>	<u>28,523</u>
Total Single-Family CHMRB 1994	<u>3,810</u>	<u>3,810</u>	<u>3,810</u>	<u>3,810</u>	<u>3,810</u>	<u>134,215</u>	<u>153,265</u>
1995 Single-Family CHMRB, Series A	<u>82</u>	<u>82</u>	<u>82</u>	<u>82</u>	<u>82</u>	<u>2,062</u>	<u>2,472</u>
Total Single-Family CHMRB 1995	82	82	82	82	82	2,062	2,472
1984 MF Private Placement (Summer Bend)	797	735	735	735	735	20,133	23,870
1987 MF Series (South Texas Rental Housing)	146	147	146	147	147	930	1,663
1993 MF Series A&B (Reming. Hill/HP)	500	500	500	500	500	20,981	23,481
1993 MF Res Ren Proj Rev Bonds	1,178	1,176	813	813	813	24,686	29,479
1996 MF Series A&B (Brighton's Mark)	495	495	495	495	495	17,975	20,450
1996 MF Series A&B (Las Colinas)	840	840	840	840	840	31,673	35,873
1996 MF Series A&B (Braxton's Mark)	829	829	829	829	829	30,862	35,007
1996 MF Series A-D (Dallas-Ft. Worth Pool)	1,789	1,787	1,794	1,789	1,792	35,680	44,631
1996 MF Series A-D (Harbors & Plumtree)	1,043	1,045	1,046	1,047	1,046	20,844	26,071
1996 MF Series A&B (NHP Foundation)	2,068	2,063	2,067	2,075	2,064	42,376	52,713
1997 MF Series (Meadow Ridge)	901	907	908	908	913	25,368	29,905
1998 MF Series (Pebblebrook)	726	730	727	730	732	18,788	22,433
1998 MF Series A-C (Residence at the Oaks)	591	592	590	592	591	17,057	20,013
1998 MF Series (Volente)	725	729	732	734	731	18,801	22,452
1998 MF Series (Dallas-Word Rfdg)	747	747	747	747	747	19,758	23,493
1998 MF Series A&B (Greens of Hickory Trail)	872	878	878	877	891	22,755	27,151
1999 MF Series A-C (Mayfield)	802	798	797	797	794	19,888	23,876
1999 MF Series (Woodglen Village)	793	830	830	830	830	29,604	33,717
2000 MF Series (Timber Point Apts)	4,380	4,471	4,422	4,368	4,314	76,571	98,526
2000 MF Series (Oaks @ Hampton)	752	778	778	778	777	26,098	29,961
2000 MF Series (Deerwood)	403	443	475	471	477	14,626	16,895
2000 MF Series (Creek Pt)	3,691	3,691	3,744	3,705	3,663	65,627	84,121
2000 MF Series (Parks Westmoreland)	855	896	896	896	896	29,082	33,521
2000 MF Series (Honey Creek)	1,562	1,562	1,571	1,670	1,670	55,096	63,131
2000 A/C MF Series (Highland Meadows)	921	921	1,059	1,057	1,054	28,276	33,288
2000 A&B MF Series (Greenbridge)	1,495	1,532	1,562	1,562	1,561	56,884	64,596
2000 A/C MF Series (Collingham Park)	915	915	985	1,053	1,052	29,571	34,491
2000 A&B MF Series (Williams Run)	1,032	1,032	1,037	1,032	1,032	35,285	40,450
2000 A&B MF Series (Red Hills Villas)	870	897	905	905	906	31,690	36,173
2001A MF Series (Bluffview Sr. Apts)	920	934	961	964	964	34,723	39,466
2001A MF Series (Knollwood Villas Apts)	1,183	1,201	1,238	1,240	1,240	44,503	50,605
2001A MF Series (Skyway Villas)	737	737	737	869	910	25,857	29,847
2001A MF Series (Cobb Park)	<u>619</u>	<u>621</u>	<u>646</u>	<u>646</u>	<u>646</u>	<u>23,347</u>	<u>26,525</u>
Total Multifamily Bonds	<u>36,177</u>	<u>36,459</u>	<u>36,490</u>	<u>36,701</u>	<u>36,652</u>	<u>995,395</u>	<u>1,177,874</u>
TOTAL ALL BONDS	<u>\$ 105,246</u>	<u>\$ 106,254</u>	<u>\$ 105,990</u>	<u>\$ 125,574</u>	<u>\$104,086</u>	<u>\$3,806,891</u>	<u>\$4,354,038</u>

(Concluded)

Notes: The actual maturity of any class of bonds may be shorter than its stated maturity as a result of prepayments on the Mortgage Certificates or loans. No assurance can be given as to the rates of prepayments that actually will occur. Interest does not include accretions on capital appreciation bonds or amortization of premium/discount on bonds.

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
 AUGUST 31, 2001
 (AMOUNTS IN THOUSANDS)

Description of Issue	Pledge and Other Sources Related Expenditures for Fiscal Year 2001						
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	Net Available for Debt Service
Single Family:							
Series 82A, 83A, 84 A&B, 85A, 85B/C							
86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C							
96A-C, 96D/E, 97 A-F	\$ 11,706	\$ 22,453	\$ 35,969	\$ 70,128	\$ 91	\$ 1,954	\$ 68,265
Residential Mortgage Revenue Bonds:							
Series 87A, 87D, 88A, 89 A/B, 98 A/B, 99A	656	27,327	14,635	42,618	286	943	41,961
GNMA, Series 1989A & 1989B							
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	89	6,506	10,410	17,005		143	16,862
SF MRB CHMRB Series 1993 A-E		2,291	4,400	6,691		26	6,665
SF MRB CHMRB Series 1994 A-C		4,129	5,320	9,449		38	9,411
SF MRB CHMRB Series 1995 A&B		240	635	875		1	874
TOTAL SINGLE FAMILY	12,451	62,946	71,369	146,766	377	3,105	144,038
Multi Family:							
1984 MF Private Placement (Summerbend)	738			738	36	1	773
1987 MF South Texas Rental Housing	99	60		159			159
1991 MF Series A&B (Phoenix Mutual)	809			809	26		835
1993 MF Series A&B (RemHill/HighPt Ref)	440			440	44	5	479
1993 MF Res Ren Project Revenue Bonds	856			856	53		909
1996 MF Series A/B Brighton's/Las Colinas)	1,359			1,359	29	6	1,382
1996 MF Series A/B (Braxton's Mark)	845			845	18	3	860
1996 MF Series A-D (Dallas-Ft Worth Poof)	1,478			1,478	53		1,531
1996 MF Series A-D (Harbors & Plumtree)	858			858	31		889
1996 MF Series A/B (NHP Foundation)	1,648			1,648	66		1,714
1997 MF Series (Meadow Ridge)	743			743	11		754
1998 MF Series (Pebble Brook)	595			595	27		622
1998 MF Series A-C (Residence Oaks)	491			491	20		511
1998 MF Series (Volente)	600			600	25		625
1998 MF Series (Greens of Hickory Trail)	657			657	11		668
1998 MF Series (Dallas-Oxford Rfdg)	727			727	13		740
1999 MF Series (Woodglen)	291			291	11		302
1999 MF Series (Mayfield Apts)	879			879	11		890
2000 MF Series (Timber Pt Apts)	734			734	8		742
2000 MF Series (Oaks at Hampton)	403			403	10		413
2000 MF Series (Deerwood Apts)	403			403	6		409
2000 MF Series (Creek Pt Apts)	259			259	7		266
2000 MF Series (Parks Westmoreld)	851			851	10		861
2000 MF Series (Honey Creek)	1,562			1,562	17		1,579
2000 MF Series (Highland Meadows)	933			933	12		945
2000 MF Series (Greenbridge)	1,221			1,221	17		1,238
2000 MF Series (Collingham Pk)	727			727	10		737
2000 MF Series (Williams Run)	725			725	10		735
2000 MF Series (Red Hills Villa)	623			623	8		631
2001 MF Series (Bluffview Apt)	302			302	4		306
2001 MF Series (Knollwood Villa)	388			388	5		393
2001 MF Series (Skyway Villa)	104			104	2		106
2001 MF Series (Cobb Park Apt)	52			52	1		53
TOTAL MULTIFAMILY	23,400	60		23,460	612	15	24,057
TOTAL	\$ 35,851	\$ 63,006	\$ 71,369	\$ 170,226	\$ 989	\$ 3,120	\$ 168,095

(Continued)

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
AUGUST 31, 2001
(AMOUNTS IN THE THOUSANDS)

Description of Issue	Debt Service			Interest and Sinking Fund		Reserve Fund	
	Principal	Interest	Refunded or Extinguished	Minimum	Actual	Minimum	Actual
Single Family:							
Series 82A, 83A, 84 A&B, 85A, 85B/C 86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C 96A-C, 96D/E, 97 A-F	\$ 4,880	\$27,853	\$ 35,969	n/a	n/a	\$ 3,272	\$ 4,973
Residential Mortgage Revenue Bonds:							
Series 87A, 87D, 88A, 89A/B, 98A/B, 99A GNMA, Series 1989A & 1989B	1,275	24,549	14,635	n/a	n/a	2,001	2,001
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	255	6,182	10,410	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1993 A-E		2,163	4,400	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1994 A-C		3,988	5,320	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1995 A&B		100	635	n/a	n/a	n/a	n/a
TOTAL SINGLE FAMILY	6,410	64,835	71,369			5,273	6,974
Multi Family:							
1984 MF Private Placement (Summerbend)	180	737		n/a	n/a	n/a	n/a
1987 MF South Texas Rental Housing	48	99		n/a	n/a	1,016	1,124
1993 MF Series A&B (RemHill/HighPt Ref)		436		n/a	n/a	n/a	n/a
1993 MF Series (NCHMP)	315	856		n/a	n/a	n/a	n/a
1996 MF Series A/B Brighton's/Las Colinas)		1,352		n/a	n/a	n/a	n/a
1996 MF Series A/B (Braxton's Mark)		841		n/a	n/a	n/a	n/a
1996 MF Series A-D (Dallas-Ft Worth Pool)	315	1,478		n/a	n/a	n/a	n/a
1996 MF Series A-D (Harbors & Plumtree)	180	858		n/a	n/a	n/a	n/a
1996 MF Series A/B (NHP Foundation)	420	1,648		n/a	n/a	n/a	n/a
1997 MF Series (Meadow Ridge)	155	743		n/a	n/a	n/a	n/a
1998 MF Series (Pebble Brook)	65	595		n/a	n/a	n/a	n/a
1998 MF Series A-C (Residence Oaks)	52	491		n/a	n/a	n/a	n/a
1998 MF Series (Volente)	65	600		n/a	n/a	n/a	n/a
1998 MF Series (Dallas-Oxford Rfdg)		809		n/a	n/a	n/a	n/a
1998 MF Series (Greens of Hickory Trail)	70	727		n/a	n/a	n/a	n/a
1999 MF Series (Mayfield Apts)		657		n/a	n/a	n/a	n/a
1999 MF Series (Woodglen)		879		n/a	n/a	n/a	n/a
2000 MF Series (Timber Pt Apts)		291		n/a	n/a	n/a	n/a
2000 MF Series (Oaks at Hampton)		734		n/a	n/a	n/a	n/a
2000 MF Series (Deerwood Apts)		403		n/a	n/a	n/a	n/a
2000 MF Series (Creek Pt Apts)		259		n/a	n/a	n/a	n/a
2000 MF Series (Parks Westmoreld)		851		n/a	n/a	n/a	n/a
2000 MF Series (Honey Creek)		1,562		n/a	n/a	n/a	n/a
2000 MF Series (Highland Meadows)		933		n/a	n/a	n/a	n/a
2000 MF Series (Greenbridge)		1,221		n/a	n/a	n/a	n/a
2000 MF Series (Collingham Pk)		727		n/a	n/a	n/a	n/a
2000 MF Series (Williams Run)	32	725		n/a	n/a	n/a	n/a
2000 MF Series (Red Hills Villa)		623		n/a	n/a	n/a	n/a
2001 MF Series (Bluffview Apt)		302		n/a	n/a	n/a	n/a
2001 MF Series (Knollwood Villa)		388		n/a	n/a	n/a	n/a
2001 MF Series (Skyway Villa)		104		n/a	n/a	n/a	n/a
2001 MF Series (Cobb Park Apt)		52		n/a	n/a	n/a	n/a
TOTAL MULTIFAMILY	1,897	22,981				1,016	1,124
TOTAL	\$ 8,307	\$87,816	\$ 71,369			\$ 6,289	\$ 8,098

(Concluded)

APPENDIX D-2

UNAUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
FOR SIX-MONTH PERIOD ENDED
FEBRUARY 28, 2002

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at February 28, 2002
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds	Combined Totals
ASSETS									
Cash	\$ 60,319	\$ 79,678	\$	\$ 387,848	\$	\$	\$	\$ 1,208,905	\$ 1,736,750
Cash Equivalents	46,865,177	13,958,362	14,624,867	36,424,621	1,138,397	577,189	13,034,752	9,519,588	136,142,953
Investments, fair value	24,684,604	204,798,103	3,130,972	143,247,590	28,938,833	543,913			376,405,182
Mortgage-backed securities, fair value	288,593,662	332,343,949	64,033,072	503,715,811		56,405,331			770,314,847
Loans Receivable, net	105,723,746	4,207,216						732,181	614,378,954
Real Estate Owned, net	36,350	(1,239)							35,111
Notes Receivable								1,000,000	1,000,000
Accrued Interest Receivable	2,778,832	3,351,462	377,307	6,776,926	159,771	314,550	15,820	19,697	13,794,365
Deferred Issuance Costs, net	4,582,325	5,579,470	960,712	746,363	233,208	289,172			12,391,250
Other Assets	147,555	5		98,473				621,829	867,862
TOTAL ASSETS	\$ 473,472,570	\$ 564,317,006	\$ 83,126,930	\$ 691,397,632	\$ 30,470,209	\$ 58,130,155	\$ 13,050,572	\$ 13,102,200	\$ 1,927,067,274
LIABILITIES AND FUND BALANCES									
Bonds Payable	\$ 403,623,437	\$ 539,740,404	\$ 79,431,470	\$ 506,190,532	\$ 28,825,000	\$ 54,880,000	\$	\$	\$ 1,612,690,843
Commercial Paper Notes Payable							12,950,000		12,950,000
Accrued Interest Payable	12,509,222	5,719,924	479,007	5,234,697	156,719	299,776	21,391		24,420,736
Accounts Payable and Other	26,229	1,769		691				614,677	643,366
Accrued Expenses	3,151,291	4,481,965	1,196,413	178,767,932	742	16,332	84,752	74,361	187,773,788
Other Liabilities									
TOTAL LIABILITIES	419,310,179	549,944,062	81,106,890	690,193,652	28,982,461	55,196,108	13,056,143	689,038	1,838,478,733
Restricted Fund Balance	54,162,391	14,372,944	2,020,040	1,203,780	1,487,748	2,934,047	(5,571)	12,413,162	88,588,541
TOTAL LIABILITIES AND FUND BALANCES	\$ 473,472,570	\$ 564,317,006	\$ 83,126,930	\$ 691,397,632	\$ 30,470,209	\$ 58,130,155	\$ 13,050,572	\$ 13,102,200	\$ 1,927,067,274

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
For the Sixth Period Ending February 28, 2002
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	Genrel Fund
Interest Revenue:								
Loans	\$ 4,573,614	\$ 214,645	\$	\$ 14,521,485	\$	\$	\$	\$ 5,
Investments	10,662,308	14,727,860	2,920,901	12,397	1,013,103	1,999,027	93,634	153,
Real Estate Owned	44,202							
Total Interest Revenue	15,300,322	14,942,525	2,920,901	14,533,882	1,013,103	1,999,027	93,634	158,
Interest Expense:								
Interest on Bonds	12,755,998	13,502,166	2,773,856	14,521,489	986,325	1,863,092		
Interest on Commercial Paper								
Net Interest Revenue	2,544,324	1,440,359	147,005	12,393	46,778	135,935	106,731	159,
Other Revenue:								
Commitment Fees	175,998	56,316	44,072	8,459				
Other	272,278	239,881		165,262				471,
Total Other Revenue	448,276	299,997	44,072	173,721	0	0	0	471,
Other Expenses:								
Amortization of Deferred Issuance Costs	124,346	108,188	13,707	7,481	5,014	6,133		
Mortgage Loan Servicing Fees	186,966	8,139						
Trustees Fees	23,128	45,488	10,881	152	4,602	9,756	2,119	1,
Mortgage Pool, Bond & Self Insurance	30,428							
Provision for Estimated Losses on Loans	192,510	27,900	43,878			1,000	24,451	21,
Other	9,301	169,313						2,764,
Total Other Expenses	566,709	359,028	68,466	7,633	9,616	16,889	26,570	2,786,
Operating Income (Loss)	2,425,891	1,378,328	122,611	178,481	37,162	119,046	(39,667)	(2,154,
Gain (Loss) on Early Extinguishment of Debt	(442,726)	(21,496)			(14,519)	(20,533)		
Net Increase (Decrease) in the Fair Value of Investments	2,271,752	3,402,506	171,264	(330,273)	244,482	566,567		
Operating Transfers, net	(1,192,129)	478,994	(3,447)	(330,273)	(23,680)	(59,962)	19,070	2,136,
Net Income (Loss)	\$ 3,062,786	\$ 5,236,332	\$ 290,428	\$ (151,792)	\$ 243,445	\$ 607,118	\$ (20,597)	\$ (17,
Restricted fund balance, beginning of period	51,099,603	9,136,612	1,729,612	1,355,572	1,244,303	2,328,929	15,026	12,431,
Equity Transfers								
RESTRICTED FUND BALANCE, END OF PERIOD	\$ 54,162,391	\$ 14,372,944	\$ 2,020,040	\$ 1,203,780	\$ 1,487,748	\$ 2,834,047	\$ (5,571)	\$ 12,413,

APPENDIX E

FORM OF PROPOSED OPINION OF BOND COUNSEL

[LETTERHEAD OF BOND COUNSEL]

_____, 2002

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Single Family Mortgage Revenue Bonds, in four series to be known as (i) its Single Family Mortgage Revenue Bonds, 2002 Series A (the "Series A Bonds"), (ii) its Single Family Mortgage Revenue Refunding Bonds, 2002 Series B (the "Series B Bonds"), (iii) its Single Family Mortgage Revenue Refunding Bonds, 2002 Series C (the "Series C Bonds"); and (iv) its Single Family Mortgage Revenue Refunding Bonds, 2002 Series D (the "Series D Bonds") (collectively, the "Series 2002 A/B/C/D Bonds"). The initially issued Series 2002 A/B/C/D Bonds shall bear interest from June 1, 2002. Interest on the Series 2002 A/B/C/D Bonds is payable March 1, 2003, and semiannually thereafter on each September 1 and March 1 until maturity or prior redemption. The Series 2002 A/B/C/D Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2002 A/B/C/D Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to mandatory, optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE SERIES 2002 A/B/C/D BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on May 9, 2002 (the "Bond Resolution"), a Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, between the Department's predecessor, the Texas Housing Agency, or the Department, as the case may be, and The Fort Worth National Bank, or its successor, Bank One, National Association, as trustee (the "Trustee"), as amended and supplemented (collectively, the "Single Family Indenture"), a Thirty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002 (the "Thirty-Second Series Supplement") relating to the Series A Bonds, a Thirty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002 (the "Thirty-Third Series Supplement") relating to the Series B Bonds, a Thirty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002 (the "Thirty-Fourth Series Supplement") relating to the Series C Bonds and a Thirty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002 (the "Thirty-Fifth Series Supplement") relating to the Series D Bonds (the Thirty-Second Series Supplement, the Thirty-Third Series Supplement, the Thirty-Fourth Series Supplement and the Thirty-Fifth Series Supplement shall be referred to collectively as the "Supplemental Indentures"). The Single Family Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series A Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans, funding capitalized interest and paying a portion of the costs of issuance of the Series 2002 A/B/C/D Bonds. The Series B Bonds are being issued for the purpose of refunding the Department's outstanding Residential Mortgage Revenue Bonds, Series 2001E. The Series C Bonds are being issued for the purpose of refunding the Department's outstanding Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT). The Series D Bonds are being issued for the purpose of refunding the Department's outstanding Single Family Mortgage Revenue Refunding Bonds, 1991 Series A. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE SINGLE FAMILY INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2002 A/B/C/D Bonds upon the terms and conditions set forth in the Single Family Indenture. The Department reserves the right in the Indenture to issue other bonds of the Department under the Indenture for other programs similar to the program initially funded with the proceeds of the Series 2002 A/B/C/D Bonds or funds made available through the issuance of the Series 2002 A/B/C/D Bonds and to refund bonds issued under the Indenture, and further reserves the right to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 2002 A/B/C/D Bonds, all as provided in the Indenture.

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 Series 2002 A/B/C/D Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2002 A/B/C/D Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2002 A/B/C/D Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement). We have not assumed any responsibility with respect to the financial condition or capability of the Department or the disclosure thereof. In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certain proceedings pertaining to the Series 2002 A/B/C/D Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. TR-1 of each series of the Series 2002 A/B/C/D Bonds.

You have authorized us to assume without independent verification (i) the genuineness of certificates, records and other documents (collectively, "documents") and the accuracy and completeness of the statements of fact contained therein; (ii) the due authorization, execution and delivery of the documents described above by the other parties thereto; (iii) that all documents submitted to us as originals are accurate and complete; and (iv) that all documents submitted to us as copies are true and correct copies of the originals thereof.

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Series 2002 A/B/C/D Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Series 2002 A/B/C/D Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Department's Single Family Mortgage Revenue Bonds, 1995 Series A-1; Taxable Single Family

Mortgage Revenue Bonds, 1995 Series C-1; Single Family Mortgage Revenue Bonds, 1996 Series A; Single Family Mortgage Revenue Refunding Bonds, 1996 Series B; Single Family Mortgage Revenue Bonds, 1996 Series D; Single Family Mortgage Revenue Refunding Bonds, 1996 Series E; Single Family Mortgage Revenue Bonds, 1997 Series A; Single Family Mortgage Revenue Refunding Bonds, 1997 Series B; Taxable Single Family Mortgage Revenue Bonds, 1997 Series C; Single Family Mortgage Revenue Bonds, 1997 Series D; Single Family Mortgage Revenue Refunding Bonds, 1997 Series E and Taxable Single Family Mortgage Revenue Bonds, 1997 Series F, all issued under the Single Family Indenture. The Department has also issued its Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A, and Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A which are secured on a basis subordinate to the Bonds.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2002 A/B/C/D Bonds. The authorized officers of the Department have duly executed the Series 2002 A/B/C/D Bonds and the Trustee has duly authenticated the Series 2002 A/B/C/D Bonds, to the extent required by the Indenture, and delivered the Series 2002 A/B/C/D Bonds to the initial purchasers thereof. The Series 2002 A/B/C/D Bonds constitute legal, valid and binding limited obligations of the Department and are entitled to the benefit and security of the Indenture. The form and execution of the executed Series 2002 A/B/C/D Bonds that we have examined are regular and proper.

4. The Series 2002 A/B/C/D Bonds are issued pursuant to the provisions of the Act and constitute limited obligations of the Department and are payable solely from the revenues, funds and assets of the Department pledged under the Indenture and not from any other revenues, funds or assets of the Department. The Series 2002 A/B/C/D Bonds are not and do not create or constitute in any way an obligation, a debt or a liability of the State, or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State. The Department has no taxing power.

5. The enforceability of certain provisions of the Series 2002 A/B/C/D Bonds, the Bond Resolution and the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors. Furthermore, the availability of equitable remedies under the Series 2002 A/B/C/D Bonds, the Bond Resolution and the Indenture may be limited by general principles of equity that permit the exercise of judicial discretion.

6. Interest on the Series 2002 A/B/C/D Bonds is excludable from gross income for federal income tax purposes under existing law.

7. Interest on the Series A Bonds, the Series B Bonds and the Series C Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of calculating the federal alternative minimum tax on individuals and corporations under existing law.

8. Interest on the Series D Bonds is not includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, except that interest on the Series D Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, a regulated investment company, a REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

IN PROVIDING THE OPINIONS set forth in paragraphs 6, 7 and 8 above with respect to the Series 2002 A/B/C/D Bonds, we have relied on representations of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer and the Mortgage Lenders, respectively, which we have not independently verified, and have assumed continuing compliance with the procedures, safeguards and

covenants in the Indenture and other documents relating to the requirements of the Internal Revenue Code of 1986, as amended. We have further relied on the report (the "Report") of Causey Demgen & Moore, Inc., certified public accountants, regarding the mathematical accuracy of certain computations. In the event that any of such representations or the Report is determined to be inaccurate or incomplete or the Department, a Mortgage Lender or the Servicer fails to comply with the foregoing procedures, safeguards and covenants in the Indenture, interest on the Series 2002 A/B/C/D Bonds could become includable in gross income for federal income tax purposes under existing law from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

EXCEPT AS STATED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Series 2002 A/B/C/D Bonds.

HOLDERS OF THE Series 2002 A/B/C/D Bonds should also 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 Series 2002 A/B/C/D Bonds.

THE OPINIONS SET FORTH ABOVE 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 Series 2002 A/B/C/D Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer. We observe that the Department has covenanted in the Supplemental Indentures 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 Series 2002 A/B/C/D Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

APPENDIX F-1

DEPARTMENT'S MORTGAGE LOAN PORTFOLIO

Additional Information Concerning Mortgage Loans And Mortgage Certificates

The Texas Department of Housing and Community Affairs (the "Department") owns an extensive portfolio of mortgage loans (the "Portfolio Mortgage Loans") and GNMA/FNMA Certificates (Mortgage Certificates) acquired with the proceeds of the Department's Single Family Mortgage Revenue Bonds, Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds), Residential Mortgage Revenue Bonds, GNMA Collateralized Home Mortgage Revenue Bonds and Collateralized Home Mortgage Revenue Bonds. The following tables summarize certain information regarding the Portfolio Mortgage Loans and Mortgage Certificates, as of February 28, 2002, and are included solely for the purpose of providing comparative information with respect to the Portfolio Mortgage Loans and Mortgage Certificates. This information should not be construed as a representation or opinion of the Department that the information concerning the new Mortgage Loans and Mortgage Certificates will approximate the information shown below.

Part I: Single Family Mortgage Revenue Bond Trust Indenture and Junior Lien Indenture 1980 Trust Indenture

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1980 A ⁽¹⁾	\$ 150,000,000	\$ 0	11.20 %	\$ 135,128,160	\$ 6,792,990
1982 A	100,000,000	0	13.93	14,212,374	105,235
1983 A ⁽¹⁾	238,800,000	0	10.79	216,279,114	13,193,512
1984 A/B	304,200,000	0	12.10/9.75	171,587,864	7,369,709
1985 A ⁽¹⁾	200,000,000	0	9.75	118,045,235	13,074,105
1985 B ⁽¹⁾	123,996,157	0	9.70/9.55	29,176,707	2,918,039
1985 C ⁽¹⁾	30,000,000	0	8.20	27,726,028	4,942,730
1986 A ⁽¹⁾	83,425,000	0	8.70	73,526,184	12,551,461
1986 B ⁽¹⁾	90,280,000	0	7.99/7.90	82,298,613	19,460,880
1987 A	14,840,000	0	---	---	---
1987 B	77,700,000	0	7.99/8.05/8.70	69,445,860	11,063,814
1991 A	81,605,000	15,605,000	---	---	---
1995 A-1, B-1, C-1	167,125,000	105,485,000	6.65	98,309,227	66,762,432
1996 A, B, C	59,140,000	30,190,000	5.95*	19,273,572	15,400,564
1996 D, E	169,490,000	116,455,000	6.75	92,277,298	70,027,315
1997 A, B, C	79,500,000	70,505,000	5.95*	78,969,869	66,509,892
1997 D, E, F	85,090,000	61,570,000	5.95*	66,463,700	58,095,111
TOTAL	\$ 2,055,191,157	\$399,810,000		\$ 1,292,719,805	\$ 368,267,789

* = "Buy Down" Rate

(1) The Single Family Mortgage Revenue Refunding Bonds 1991 Series A refunded all outstanding 1980 Series A Bonds. The Junior Lien Single Family Revenue Refunding Bonds 1994 Series A&B refunded all outstanding 1983 Series A Bonds. The Single Family Mortgage Revenue Bonds 1995 Series A-1 provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1995 Series B-1 refunded certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Refunding Bonds 1995 Series C-1 refunded all outstanding Single Family Mortgage Revenue Bonds 1985 Series A and a portion of the 1985 Series B. The Single Family Mortgage Revenue Bonds 1996 Series A provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1996 Series B refunded all outstanding 1986 Series A Bonds. The Single Family Mortgage Revenue Bonds 1996 Series D provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1996 Series E refunded all 1985 Series C and 1986 Series B Bonds and refunded certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Bonds 1997 Series A and C provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1997 Series B refunded

certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Bonds 1997 Series D and Series F provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1997 Series E refunded all outstanding 1987 Series B Bonds.

1994 Junior Lien Trust Indenture
Single Family Mortgage Revenue Refunding Bonds

Series	Original	Bonds	Mortgage	Mortgage Certificates	
	Issue Amount	Outstanding	Rate	Originated	Outstanding
1994 A	\$ 35,000,932	\$ 8,147,037	5.95/6.65/6.75%	\$ 11,354,583	\$ 9,399,432
1994 B	55,995,000	-	5.95	2,784,029	2,672,893
TOTAL	\$ 90,995,932	\$ 8,147,037		\$ 14,138,612	\$ 12,072,325

On March 27, 2002, the Department issued \$10,000,000 Taxable Junior Lien Single Family Mortgage Revenue Bonds Series 2002A for the primary purpose of providing funds to finance single-family mortgage loans, multifamily mortgage loans, downpayment assistance for eligible very low income first-time homebuyers in connection with the purchase or development of homes located primarily in rural and border regions, to pay cost of issuance of the Series 2002A Bonds and other permitted programs and purposes as determined by the Department from time to time.

The following table characterizes the loan type of the Portfolio Mortgage Loans, excluding loans included in GNMA/FNMA Mortgage Certificates, of the 1980 Trust Indenture:

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Prior Mortgage Loans
Conventional	1,238	\$ 43,032,973	49.82%
FHA	1,152	45,610,829	46.36%
VA	95	2,828,673	3.82%
Total	2,485	\$ 91,472,475	100.00%

Based on reports submitted by Mortgage Loan Servicers, the table below sets forth information concerning delinquent Portfolio Mortgage Loans (except for loans included in Mortgage Certificates) of the 1980 Trust Indenture:

Conventional

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	66	\$ 2,289,069	5.33%
60 days	10	418,904	0.80%
90 days or more	13	426,155	1.05%
Total	89	\$ 3,134,128	7.18%

FHA

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	48	\$ 1,881,233	4.17%
60 days	4	189,408	0.34%
90 days or more	11	528,422	0.95%
Total	63	\$ 2,599,063	5.46%

VA

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	11	\$ 413,263	11.57%
60 days	1	53,284	1.05%
90 days or more	4	130,472	4.21%
Total	16	\$ 597,019	16.83%

TOTAL

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	125	\$ 4,583,565	5.03%
60 days	15	661,596	0.60%
90 days or more	28	1,085,049	1.13%
Total	168	\$ 6,330,210	6.76%

The table below sets forth certain information with respect to prepayments of the 1980 Trust Indenture Mortgage Loans and is provided for historical purposes only. Prepayments of Mortgage Loans could occur on a more or less frequent basis than that shown for the 1980 Trust Indenture Mortgage Loans below.

<u>Series</u>	<u>Mortgage Rate</u>	<u>Total Loans Acquired</u>	<u>Total Loans Prepaid⁽²⁾</u>	<u>Percent Prepaid</u>
1980 Series A	11.20	2,947	2,672	90.67%
1982 Series A	13.93	340	331	97.35%
1983 Series A	10.79	3,737	3,371	90.21%
1984 Series A/B	12.10/9.75	3,040	2,826	92.96%
1985 Series A	9.75	2,011	1,668	82.94%
1985 Series B	9.70/9.55	558	472	84.59%
1985 Series C	8.20	462	335	72.51%
1986 Series A	8.70	1,121	836	74.58%
1986 Series B	7.99/7.90	1,291	835	64.68%
1987 Series B	7.99/8.05/8.70	1,168	844	72.26%
Totals		16,675	14,190	85.10%

(2) Total Loan Prepayments includes Portfolio Mortgage Loans (except for loans included in Mortgage Certificates) actually prepaid by the borrower, Portfolio Mortgage Loans acquired by the Department through foreclosure and Portfolio Mortgage Loans repurchased by the originating Mortgage Lender.

From the inception of the Department's single family mortgage program through February 28, 2002, the Department had foreclosed on 3,035 Portfolio Mortgage Loans having an unpaid principal balance at default of \$156,376,882. As of February 28, 2002, the Department continued to hold title to property securing four of such Portfolio Mortgage Loans aggregating \$125,097 in unpaid principal balance. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has employed outside contractors to manage, maintain, and arrange for sale, in conjunction with brokers, such real estate owned.

The tables below set forth the Servicers of the Mortgage Loans and Mortgage Loans included in Mortgage Certificates:

Master Servicers—Mortgage Certificate Loans--Single Family

Servicers	Percent of Total Loans
First Nationwide Mortgage	53.92%
Texas Star Mortgage	46.08%
Total	100.00%

Servicers—Mortgage Loans--Single Family

Servicers	Percent of Total Loans
Mitchell Mortgage Company	48.77%
Meritech Mortgage Services, Inc.	15.65%
First Nationwide Mortgage	12.68%
Guaranty Residential Lending, Inc.	6.40%
First Horizon Home Loan Corp.	5.96%
Other	10.54%
Total	100.00%

Mortgage Pool Insurance and Self Insurance Fund Balance Single Family Mortgage Revenue Bonds

Initial Bond (Refunded Bond) Series	Insurance Provider	Remaining Coverage Amount
1980A	MGIC	\$ 5,476,020
1982A	MGIC	1,005,444
1983A	MGIC	8,668,228
1984A/B	GEMIC	5,707,753
1985A	MGIC	4,180,703
1985B/C	MGIC	5,012,109
1986A(1996B) ⁽³⁾	Self Insurance	925,223
1986B(1996E) ⁽³⁾	Self Insurance	1,050,810
1987B(1997E) ⁽³⁾	Self Insurance	1,218,660
Total		\$ 33,244,950

(3) The Department has obtained Rating Agency approval to reduce the noted Self Insurance Fund balances to the following amounts: 1986A(1996B)--\$263,998; 1986B(1996E)--\$336,490; 1987B(1997E)--\$297,512.

Reserve Fund Balance
Single Family Mortgage Revenue Bonds (1980 Trust Indenture and Junior Lien)

Bond Series	Debt Service Reserve ⁽⁴⁾	
	Par Value	Average
	Fund Balances	Investment
	Actual	Rate ⁽⁵⁾
1991A	3,024,931	7.875%
1994 A&B	204,241	6.350%
1996 A-C	310,199	8.703%
1996 D-E	1,260,972	11.776%
Total	\$ 4,800,343	

(4) 1980 Trust Indenture Twentieth Supplement reduced the Debt Service Reserve Requirement from 10% of bonds outstanding to 3% of loans outstanding and eliminated the Mortgage Reserve Requirement but did not affect the Debt Service Reserve Requirement relating to the Junior Lien Bonds.

(5) Weighted average rate of investments, which mature periodically.

Part II: Other Information

Mortgage Loan Information Management System

All mortgage loans made with proceeds of the Department's mortgage revenue bonds, including the Portfolio Mortgage Loans and any Mortgage Certificate loans, permit partial or complete prepayment without penalty. Mortgage loans, in general, may also be terminated prior to their respective maturities as a result of events such as default, sale, condemnation or casualty loss. A number of factors, including general economic conditions, homeowner mobility and mortgage market interest rates, will affect the rate of actual prepayments for a particular portfolio of mortgage loans.

The Department is currently managing its Mortgage Loans (other than Mortgage Loans backing Mortgage Certificates) through review of the performance of the various lending institutions participating in the program, review of the delinquency and foreclosure reports of the lenders, directing the investment of monthly receipts, payment of expenses and supervision of claims under the mortgage insurance policies. The Department manages the Mortgage Loans using an industry leading Loan Servicing Accounting and Management System (LSAMS) developed by Servantis Systems Inc (SSI) which has been subsequently been acquired by London Bridge. The system is capable of fully complying with all aspects of loan servicing as prescribed by major secondary market investors (Fannie Mae, GNMA). Compliance with industry changes is updated within LSAMS by London Bridge. The system provides the ability to generate and receive laser formatted reports and tapes and is able to report to all secondary market investors. This automated system employs a data base portfolio management system to monitor the monthly payment activity of each Portfolio Mortgage Loan. The Department does not service the Mortgage Loans backing Mortgage Certificates; however, the Department monitors the origination and payment of such Mortgage Loans. The Department is currently working on the implementation of a new Loan Administration and Servicing System from the MITAS Group, Inc. MITAS' Loan Administration software is a comprehensive and fully integrated system that has the ability to combine all types of loans into a central database and is also capable of fully complying with all aspects of loan servicing as prescribed by major secondary market investors. The conversion is scheduled to be completed in June 2002.

APPENDIX F-2

OTHER INDEBTEDNESS OF THE DEPARTMENT

Other Indebtedness of The Department

General - Single Family Since 1979, the year of creation of the Texas Housing Agency (the "Agency"), a predecessor to the Department, through February 28, 2002, there have been issued by the Agency or the Department, twenty four series of Residential Mortgage Revenue Bonds, twenty-seven series of Single Family Mortgage Revenue Bonds, two series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, ten series of GNMA/FNMA Collateralized Home Mortgage Revenue Bonds, eleven series of Collateralized Home Mortgage Revenue Bonds, and two series of Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds. As of February 28, 2002, the outstanding principal amount of bonded indebtedness of the Department for single family housing purposes was \$1,108,687,037.

General - Multifamily The Department and the Agency have issued one hundred thirteen 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 February 28, 2002, seventy four series were outstanding with an aggregate outstanding principal amount of \$506,539,399.

Single Family Mortgage Revenue Bonds ("SFMRBs") The Department has issued twenty-seven series of Single Family Mortgage Revenue and Refunding Bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, and thirty-one indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by the SFMRB Indenture. As of February 28, 2002, thirteen series were outstanding with an aggregate outstanding principal amount totaling \$399,810,000. For information concerning the portfolio of mortgage loans acquired with the SFMRBs, see "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Junior Lien Bonds The Department has issued two series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, by and between the Department and Bank One, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the SFMRB Indenture. As of February 28, 2002, one series was outstanding with an aggregate outstanding principal of \$8,147,037.

On March 27, 2002 the Department issued \$10,000,000 Taxable Junior Lien Single Family Mortgage Revenue Bonds pursuant to the Third Supplemental Junior Lien Trust Indenture.

Residential Mortgage Revenue Bonds ("RMRBs") As of February 28, 2002, the Department has issued twenty four series of Residential Mortgage Revenue and Refunding Bonds pursuant to the Residential Mortgage Revenue Bond Trust Indenture and twenty four separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of February 28, 2002, eighteen series were outstanding with an aggregate outstanding principal amount of \$539,445,000.

Collateralized Home Mortgage Revenue Bonds ("CHMRBs") The Department has issued eleven series of Collateralized Home Mortgage Revenue Bonds pursuant to the Collateralized Home Mortgage Revenue Bond Master Indenture and six separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of February 28, 2002, three series of CHMRBs were outstanding with an aggregate outstanding principal amount of \$77,580,000.

Single Family Collateralized Home Mortgage Revenue Bonds – 1993 (SFCHMRB - 1993) The Department has issued five series of single family mortgage revenue bonds under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1993, amended as of February 1, 1995 by and between the Department and Bank One, Texas, NA. As of February 28, 2002, five series of the SFCHMRB – 1993s were outstanding with an aggregate outstanding principal amount of \$28,825,000.

Single Family Collateralized Home Mortgage Revenue Bonds – 1994 (SFCHMRB – 1994) The Department has issued three series of single family mortgage revenue bonds in 1994 and 1995 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture dated as of November 1, 1994, supplemented by a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1994, as amended as of February 1, 1995, by and between the Department and Bank One, Texas, N.A. As of February 28, 2002, three series of the SFCHMRB – 1994s were outstanding with an aggregate outstanding principal amount of \$53,890,000.

The Department has issued two series of single family mortgage revenue refunding bonds in 1995 for the purpose of refunding certain notes which previously refunded certain Bonds outstanding, under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture and a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture and Second Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, each dated as of November 1, 1994, each amended as of February 1, 1995, and each by and between the Department and Bank One, Texas, NA, as Trustee. As of February 28, 2002, one series was outstanding with an aggregate outstanding principal amount of \$990,000.

GNMA Collateralized Home Mortgage Revenue Bonds The Department has issued two series of GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A and Series 1989B in aggregate principal amounts of \$72,000,000 and \$48,250,000, respectively (the "GNMA Collateralized Bonds"), pursuant to two separate indentures, which are not on an equal and ratable basis with each other. The GNMA Collateralized Bonds were sold through two separate private placement transactions with FNMA. The proceeds of the Series 1989A GNMA Collateralized Bonds were used by the Department to redeem in whole the Department's previously issued \$25,000,000 Residential Mortgage Revenue Bonds, Series 1987B, and its previously issued \$47,000,000 Residential Mortgage Revenue Bonds, Series 1987C. The proceeds of the Series 1989B GNMA Collateralized Bonds were used to finance mortgage loans through the acquisition of GNMA Certificates and, except for a portion reserved for targeted area loans, such proceeds were reserved to finance the purchase by eligible borrowers of real estate owned by financial institutions in the State of Texas or by the Department. On December 2, 1999, the GNMA Collateralized Home Mortgage Revenue Bonds were redeemed in whole by the RMRB 1999 Series D Bonds.

Collateralized Mortgage Obligations On May 4, 1987, the Department issued its \$100,000,000 Collateralized Mortgage Obligations, Series 1987A, as an investment vehicle to provide funds to carry out certain housing assistance programs of the Department. As of February 1, 1996, the Collateralized Mortgage Obligations were redeemed in whole.

APPENDIX G

INVESTMENT OF FUNDS RELATING TO PRIOR BONDS

APPENDIX G

INVESTMENT OF FUNDS RELATING TO PRIOR BONDS

The following table summarizes certain information as of February 28, 2002, regarding yields (calculated on the basis of stated maturity) or existing investments (valued at par) within the Debt Service Reserve Fund and the Float Fund (as defined in Footnote 1 below) in connection with the outstanding Prior Bonds:

<u>Fund or Account</u>	<u>Approximate Amount Invested (par value)</u>	<u>Average Investment Rate</u>	<u>Investment Maturity Date</u>	<u>Investment Agreement Provider</u>
Debt Service Reserve Fund				
Series 1991 A	\$3,024,931	7.875%	11/15/2007	Treasury Bond
Series 1996 A/B/C	310,199	8.703%	11/15/2013-2/15/2015	Ginne Mae Mortgage Certificates
Series 1996 D/E/F	1,260,972	11.776%	05/15/2014	Treasury Bond
Float Fund ⁽¹⁾				
Series 1982 A	29,680	5.445%	09/30/2029	FGIC GIC
Series 1983 A	84,329	1.997%	03/01/2002	Greenwich Repurchase Agreement
Series 1984 A/B	3,963,601	5.956%	09/30/2029	FGIC GIC
Series 1985 A	40,293	1.900%	03/01/2002	Greenwich Repurchase Agreement
Series 1985 B/C	48,382	5.320%	09/30/2029	FGIC GIC
Series 1987 B	1,322,858	5.708%	09/30/2029	FGIC GIC
Series 1991 A	1,834,953	1.900%	03/01/2002	Greenwich Repurchase Agreement
Series 1995 A/B	6,603,871	2.433%	03/01/2002	Greenwich Repurchase Agreement
Series 1995 C	2,538,169	1.910%	03/01/2002	Greenwich Repurchase Agreement
Series 1996 A/B/C	6,086,438	3.375%	03/01/2002	Greenwich Repurchase Agreement
Series 1996 D/E	14,142,329	3.013%	03/01/2002	Greenwich Repurchase Agreement
Series 1997 A/B/C	5,176,737	2.027%	03/01/2002	Greenwich Repurchase Agreement
Series 1997 D/E/F	6,587,595	1.948%	03/01/2002	Greenwich Repurchase Agreement

⁽¹⁾ Float Fund includes the Revenue Fund, Debt Service Fund, Expense Fund, and Special Mortgage Loan Fund.

APPENDIX H

**APPLICABLE MEDIAN FAMILY INCOMES AND
MAXIMUM ACQUISITION COST LIMITATIONS**

**APPLICABLE MEDIAN FAMILY INCOMES
("AMFI")**

APPLICABLE MEDIAN FAMILY INCOMES
("AMFI")

APPLICABLE MEDIAN FAMILY INCOMES
("AMFI")

Area	50% of AMFI	60% of AMFI (^)	80% of AMFI (^)	100% of AMFI*	115% of AMFI**	120% of AMFI***	140% of AMFI****
Austin-San Marcos Metro (1)	\$35,550	\$42,660	\$56,880	\$71,100	\$81,765	\$85,320	\$99,540
Brazoria Metro (2)	\$28,550	\$34,260	\$45,680	\$57,100	\$65,665	\$68,520	\$79,940
Dallas Metro (3)	\$33,250	\$39,900	\$53,200	\$66,500	\$76,475	\$79,800	\$93,100
Fort Worth - Arlington Metro (4)	\$30,650	\$36,780	\$49,040	\$61,300	\$70,495	\$73,560	\$85,820
Galveston - Texas City Metro (5)	\$26,250	\$31,500	\$42,000	\$52,500	\$60,375	\$63,000	\$73,500
Houston Metro (6)	\$29,800	\$35,760	\$47,680	\$59,600	\$68,540	\$71,520	\$83,440
Carson County	\$26,000	\$31,200	\$41,600	\$52,000	\$59,800	\$62,400	\$72,800
Delta County	\$26,150	\$31,380	\$41,840	\$52,300	\$60,145	\$62,760	\$73,220
Hemphill County	\$25,850	\$31,020	\$41,360	\$51,700	\$59,455	\$62,040	\$72,380
Kendall County	\$31,900	\$38,280	\$51,040	\$63,800	\$73,370	\$76,560	\$89,320
Loving County	\$25,750	\$30,900	\$41,200	\$51,500	\$59,225	\$61,800	\$72,100
Balance of State	\$25,700	\$30,840	\$41,120	\$51,400	\$59,110	\$61,680	\$71,960

- (1) Bastrop, Caldwell, Hays, Travis and Williamson Counties
 (2) Brazoria County
 (3) Collin, Dallas, Denton, Ellis, Hunt, Kaufman and Rockwall Counties
 (4) Hood, Johnson, Parker and Tarrant Counties
 (5) Galveston County
 (6) Chambers, Fort Bend, Harris, Liberty, Montgomery, and Waller Counties

- * Non-Targeted Area - 1-2 persons.
 ** Non-Targeted Area - 3+ persons.
 *** Targeted Area - 1-2 persons.
 **** Targeted Area - 3+ persons.

Effective: March 27, 2002

Note: The Department has determined that there are no "high housing costs area" within the State.

(^)

(^)

(^)

AVERAGE AREA PURCHASE PRICES

MAXIMUM ACQUISITION COST IN NON-TARGETED AREAS
(90% of Average Area Purchase Price)

	<u>New</u>	<u>Existing</u>
Austin-San Marcos MSA (1)	\$125,642	\$107,264
Beaumont-Port Arthur MSA (2)	94,716	62,854
Brazoria PMSA (3)	94,716	65,627
Corpus Christi MSA (4)	94,716	87,219
Dallas PMSA (5)	122,684	114,416
El Paso MSA (6)	94,716	86,130
Ft. Worth-Arlington PMSA (7)	140,536	95,234
Galveston-Texas City PMSA (8)	94,716	68,179
Houston PMSA (9)	103,298	94,039
Killeen-Temple MSA (10)	94,716	97,013
San Antonio MSA (11)	106,667	88,730
Tyler MSA (12)	94,716	64,499
all other areas	94,716	59,877

MAXIMUM ACQUISITION COST IN TARGETED AREAS
(110% of Average Area Purchase Price)

	<u>New</u>	<u>Existing</u>
Austin-San Marcos MSA (1)	\$153,563	\$131,101
Beaumont-Port Arthur MSA (2)	115,765	76,821
Brazoria PMSA (3)	115,765	80,210
Corpus Christi MSA (4)	115,765	106,601
Dallas PMSA (5)	149,947	139,841
El Paso MSA (6)	115,765	105,270
Ft. Worth-Arlington PMSA (7)	171,767	116,397
Galveston-Texas City PMSA (8)	115,765	83,330
Houston PMSA (9)	126,253	114,936
Killeen-Temple MSA (10)	115,765	118,572
San Antonio MSA (11)	130,370	108,447
Tyler MSA (12)	115,765	78,832
all other areas	115,765	73,184

- (1) Bastrop, Caldwell, Hays, Travis and Williamson Counties
- (2) Hardin, Jefferson and Orange Counties
- (3) Brazoria County
- (4) Nueces and San Patricio Counties
- (5) Collin, Dallas, Denton, Ellis, Hunt, Kaufman and Rockwall Counties
- (6) El Paso County
- (7) Hood, Johnson, Parker and Tarrant Counties
- (8) Galveston County
- (9) Chambers, Fort Bend, Harris, Liberty, Montgomery and Waller Counties
- (10) Bell and Coryell Counties
- (11) Bexar, Comal, Guadalupe and Wilson Counties
- (12) Smith County

APPENDIX I

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

By: _____
President

Attest: _____
Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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