

In the opinion of Vinson & Elkins L.L.P. ("Bond Counsel"), assuming compliance with certain covenants and based on certain representations, interest on the Bonds prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required is excludable from gross income for federal income tax purposes under existing law (except with respect to interest on any Bond during any period while it is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended). Interest on the Bonds, however, is an item of tax preference 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 and the requirement for an opinion of nationally recognized bond counsel in the event of certain changes of interest rate modes.

\$5,015,000

**Texas Department of Housing and Community Affairs
Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds
(Red Hills Villas)
Series 2006**

Dated: September 1, 2006, with interest accruing from the date of delivery**Due: as shown on the inside front cover**

The above-captioned Bonds (the "Bonds") are being issued by the Texas Department of Housing and Community Affairs (the "Issuer") pursuant to a Trust Indenture, dated as of September 1, 2006 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association (the "Trustee"). The Bonds are issuable as fully registered Bonds initially in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000. Interest on the Bonds will be payable on the 15th day of each calendar month commencing October 15, 2006 (each, an "Interest Payment Date").

The Bonds will initially be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers of Bonds will not receive physical certificates representing their ownership interest in such Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Bondholders shall mean Cede & Co. and shall not mean the ultimate purchasers of the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC or its nominee, Cede & Co., by the Trustee. Disbursements of such payments to DTC's Participants are the responsibility of DTC. See "THE BONDS – Book-Entry Only System."

The Bonds are being issued by the Issuer to provide funding for a loan (the "Loan") to be made by the Issuer to South Creek Housing, Ltd., a Texas limited partnership (the "Borrower"), pursuant to a Financing Agreement, dated as of September 1, 2006, among the Issuer, the Trustee and the Borrower for the purpose of refunding a portion of the Issuer's Multifamily Housing Mortgage Revenue Bonds (Red Hills Villas) Series 2000A (the "Prior Bonds"), the proceeds of which provided a portion of the financing for the acquisition, construction and equipping of a 168-unit multifamily residential development described herein (the "Project" or the "Development") located in Williamson County, Texas (the "County"), to be occupied in part by persons or families of very low, low and moderate income. The applicable income and rent restrictions are described more fully herein. See "THE BORROWER, THE DEVELOPMENT AND THE MANAGER" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT."

Payment of the principal of and interest on the Bonds will be secured, to the extent described herein, by the Loan and by certain other resources and assets constituting the Trust Estate under the Indenture, all as described herein. In addition, the Bonds will be secured, to the extent described herein, by



pursuant to, and subject to the limitations of, the Direct Pay Irrevocable Transferable Credit Enhancement Instrument referred to herein (the "Credit Facility").

The interest rate on the Bonds is subject to conversion to a fixed rate upon satisfaction of the terms of the Indenture and Financing Agreement. Unless appropriately supplemented in connection with a conversion of the interest rate mode, this Official Statement is intended solely for use with respect to the Bonds prior to such conversion.

The Bonds are subject to optional and special mandatory redemption prior to maturity at the times and to the extent described herein. See "THE BONDS – Redemption Provisions."

THE BONDS CONSTITUTE A VALID CLAIM OF THE RESPECTIVE BONDHOLDERS THEREOF AGAINST THE TRUST ESTATE, WHICH IS PLEDGED TO SECURE THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, PURCHASE PRICE AND INTEREST ON THE BONDS AND WHICH SHALL BE UTILIZED FOR NO OTHER PURPOSE, EXCEPT AS EXPRESSLY AUTHORIZED IN THE INDENTURE. THE BONDS, TOGETHER WITH INTEREST THEREON, ARE LIMITED OBLIGATIONS OF THE ISSUER GIVING RISE TO NO CHARGE AGAINST THE ISSUER'S GENERAL CREDIT AND PAYABLE SOLELY FROM, AND CONSTITUTE CLAIMS OF THE BONDHOLDERS THEREOF AGAINST ONLY, THE TRUST ESTATE. THE BONDS, THE PREMIUM, IF ANY, AND THE INTEREST THEREON ARE NOT DEEMED TO CONSTITUTE DEBT OF THE ISSUER (EXCEPT TO THE EXTENT OF THE TRUST ESTATE), THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, NOR IN ANY EVENT ARE THE BONDS PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE SPECIFICALLY PLEDGED THERETO. THE ISSUER HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM OR INTEREST ON THE BONDS AGAINST ANY PAST, PRESENT OR FUTURE OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE ISSUER, OR OF ANY SUCCESSOR TO THE ISSUER, AS SUCH, EITHER DIRECTLY OR THROUGH THE ISSUER OR ANY SUCCESSOR TO THE ISSUER, UNDER ANY RULE OF LAW OR EQUITY, STATUTE OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY SUCH OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS, AS SUCH, IS HEREBY EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF, AND CONSIDERATION FOR, THE EXECUTION AND ISSUANCE OF THE BONDS.

PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, PURCHASE PRICE AND INTEREST ON THE BONDS IS NOT GUARANTEED BY FANNIE MAE. FANNIE MAE'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT FACILITY. THE OBLIGATIONS OF FANNIE MAE UNDER THE CREDIT FACILITY WILL BE OBLIGATIONS SOLELY OF FANNIE MAE, A FEDERALLY CHARTERED STOCKHOLDER-OWNED CORPORATION, AND WILL NOT BE BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA OR ANY AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OF AMERICA OR OF FANNIE MAE. THE BONDS ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

This cover page contains certain information for quick reference only. It is not a complete summary of the Bonds or the financing. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriter subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters will be passed upon for Fannie Mae by its Legal Department and by its special counsel, O'Melveny & Myers LLP, for the Borrower by Locke Liddell & Sapp LLP, Austin and Dallas, Texas, and for the Underwriter by Kutak Rock LLP, Omaha, Nebraska. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about September 14, 2006.

SternBrothers&Co.

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MATURITY SCHEDULE

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
September 15, 2036	\$5,015,000	Variable	100%

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING OF THE BONDS DESCRIBED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE BORROWER, FANNIE MAE OR THE UNDERWRITER. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE OF THE BONDS DESCRIBED HEREIN WILL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE BORROWER OR FANNIE MAE SINCE THE DATE HEREOF. THE ISSUER HAS NOT NOR WILL IT ASSUME ANY RESPONSIBILITY AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION IN THIS OFFICIAL STATEMENT (OTHER THAN INFORMATION RELATING TO THE ISSUER), ALL OF WHICH HAVE BEEN FURNISHED BY OTHERS. THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT HAS BEEN OBTAINED FROM THE BORROWER, THE ISSUER, FANNIE MAE AND OTHER SOURCES BELIEVED BY THE ISSUER TO BE RELIABLE; HOWEVER, SUCH INFORMATION IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE BORROWER OR THE ISSUER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE BONDS OFFERED HEREBY, NOR WILL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

FANNIE MAE HAS NOT PROVIDED OR APPROVED ANY INFORMATION IN THIS OFFICIAL STATEMENT EXCEPT WITH RESPECT TO THE DESCRIPTION HEREIN UNDER THE CAPTION "FANNIE MAE," TAKES NO RESPONSIBILITY FOR ANY OTHER INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT AND MAKES NO REPRESENTATION AS TO THE CONTENTS OF THIS OFFICIAL STATEMENT (OTHER THAN WITH RESPECT TO THE INFORMATION HEREIN UNDER THE CAPTION "FANNIE MAE"). WITHOUT LIMITING THE FOREGOING, FANNIE MAE MAKES NO REPRESENTATION AS TO THE SUITABILITY OF THE BONDS FOR ANY INVESTOR, THE FEASIBILITY OR PERFORMANCE OF THE DEVELOPMENT OR COMPLIANCE WITH ANY SECURITIES, TAX OR OTHER LAWS OR REGULATIONS. FANNIE MAE'S ROLE IS LIMITED TO PROVIDING THE CREDIT FACILITY TO THE TRUSTEE.

Stern Brothers & Co. (the "Underwriter") has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

References in this Official Statement to the Indenture, the Financing Agreement, the Regulatory Agreement, the Note, the Reimbursement Agreement, the Credit Facility and other documents do not purport to be complete, and reference should be made to such documents for full and complete details of their contents.

THIS OFFICIAL STATEMENT, INCLUDING THE COVER PAGE HEREOF, IS PROVIDED FOR THE PURPOSE OF SETTING FORTH INFORMATION IN CONNECTION WITH THE ISSUANCE AND SALE OF THE BONDS. THIS OFFICIAL STATEMENT SPEAKS ONLY AS OF ITS DATE, AND THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE. THE DESCRIPTION OF THE BONDS AND THE DOCUMENTS AUTHORIZING AND SECURING

SAME CONTAINED HEREIN DOES NOT PURPORT TO BE COMPREHENSIVE OR DEFINITIVE. ALL REFERENCES TO AND DESCRIPTION OF SUCH DOCUMENTS HEREIN ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH DOCUMENTS.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATIONS TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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\$5,015,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
VARIABLE RATE DEMAND MULTIFAMILY HOUSING MORTGAGE
REVENUE REFUNDING BONDS
(RED HILLS VILLAS)
SERIES 2006

INTRODUCTION

The following introductory statement is subject in all respects to more complete information contained elsewhere in this Official Statement. The order and placement of materials in this Official Statement, which includes the cover page and Appendices hereto, are not to be deemed a determination of relevance, materiality or relative importance, and this Official Statement, including the cover page and Appendices hereto, must be considered in its entirety. All capitalized terms used in this Official Statement that are not otherwise defined herein will have the meanings ascribed to them in the Indenture, the Financing Agreement, the Regulatory Agreement, the Reimbursement Agreement and the Credit Facility (as each such term is defined herein).

This Official Statement and the Appendices hereto set forth certain information relating to the issuance by the Texas Department of Housing and Community Affairs (the "Issuer") of its Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006 (the "Bonds"). Certain capitalized terms used in this Official Statement are defined in APPENDIX A – "CERTAIN DEFINITIONS."

The Bonds are being issued (a) under a Trust Indenture (the "Indenture"), dated as of September 1, 2006, between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"), (b) pursuant to the Texas Housing Finance Corporations Act, Chapter 2306, Texas Government Code, as amended (the "Act") and (c) pursuant to a resolution of the Issuer adopted on August 30, 2006 (the "Resolution").

The Bonds will initially bear interest at a floating rate adjusted weekly (the "Weekly Variable Rate"). The interest rate on the Bonds is subject to adjustment to a Reset Rate or a Fixed Rate as described below under "THE BONDS". **This Official Statement is not intended to provide adequate information to, and cannot be relied upon by, prospective owners of Bonds regarding Bonds purchased after the period in which the Bonds bear interest at a rate determined weekly or after an Alternate Credit Facility has been delivered. A condition of either such event and the related remarketing of the Bonds is the delivery of an updated disclosure document. THEREFORE, PROSPECTIVE PURCHASERS OF THE BONDS ON AND AFTER THE DATE OF ANY SUCH CONVERSION OF THE INTEREST RATE ON THE BONDS OR DELIVERY OF AN ALTERNATE CREDIT FACILITY CANNOT RELY ON THIS OFFICIAL STATEMENT.**

The Bonds are being issued by the Issuer to fund a loan (the "Loan") to be made by the Issuer to South Creek Housing, Ltd., a Texas limited partnership (the "Borrower"), for the purpose of refunding a portion of the Issuer's Multifamily Housing Mortgage Revenue Bonds (Red Hills Villas) Series 2000A (the "Prior Bonds"), the proceeds of which financed the acquisition, construction and equipping of a 168-unit multifamily rental housing project known as Red Hills Villas (the "Development" or "Project") located at 1401 South A.W. Grimes Boulevard, Round Rock, Texas, which is occupied, to the extent required by federal tax law, by persons and families of very low, low and moderate income, as required by the Issuer and participation in the low income housing tax credit program described in this Official Statement. See "THE BORROWER, THE DEVELOPMENT AND THE MANAGER." The Loan will

be made pursuant to a Financing Agreement, dated as of September 1, 2006 (the "Financing Agreement"), among the Issuer, the Trustee and the Borrower, in accordance with the requirements of Fannie Mae ("Fannie Mae" or the "Credit Provider"). The Loan will be evidenced by a Multifamily Note, dated as of September 1, 2006 (the "Note"), executed by the Borrower. See "THE NOTE." The Note will be payable to the Issuer and will be secured by, among other things, a Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of September 1, 2006 (together with certain riders, the "Security Instrument"), from the Borrower, in favor of the Issuer. The Security Instrument will encumber the Development.

The Loan will be made by the Issuer in accordance with the requirements of Fannie Mae and subject to the terms and conditions of a commitment (the "Fannie Mae Commitment"), issued by Fannie Mae to CharterMac Mortgage Capital Corporation, as servicer of the Loan (the "Loan Servicer"). Under the Fannie Mae Commitment, Fannie Mae has agreed, subject to satisfaction of the terms and conditions of the Fannie Mae Commitment, to provide credit enhancement for the Bonds pursuant to, and subject to the limitations of, a Direct Pay Irrevocable Transferable Credit Enhancement Instrument, dated the Closing Date (the "Credit Facility"), provided by Fannie Mae to the Trustee. The obligation of the Borrower to reimburse Fannie Mae for any funds provided by Fannie Mae under the Credit Facility will be set forth in a Reimbursement Agreement, dated as of September 1, 2006 (the "Reimbursement Agreement") between the Borrower and Fannie Mae. See "SECURITY FOR THE BONDS – Credit Facility", APPENDIX E – "FORM OF CREDIT FACILITY" and APPENDIX F – "SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT."

On the date of issuance and delivery of the Bonds (the "Closing Date"), the Note and the Security Instrument will be assigned by the Issuer to the Trustee and Fannie Mae, as their interests may appear and, upon such assignment, will be part of the Trust Estate securing the Bonds. Pursuant to an Assignment and Intercreditor Agreement, dated as of September 1, 2006, by and among the Issuer, Fannie Mae and the Trustee, and acknowledged, accepted and agreed to by the Borrower (the "Assignment"), the right, power and authority to make all decisions in connection with the Loan and under the Loan Documents will be vested exclusively in Fannie Mae.

In addition to the other security provided under the Indenture (as described herein under the caption "SECURITY FOR THE BONDS"), credit enhancement for the Bonds will, as noted above, be provided by Fannie Mae pursuant to the Credit Facility. See APPENDIX E- "FORM OF CREDIT FACILITY"). The Credit Facility will be a direct pay facility, permitting the Trustee to draw at the times and in the amounts as necessary to pay the principal, but not premium, purchase price and interest on the Bonds when due. The Borrower's obligations to repay Fannie Mae for such sums drawn is governed by the Reimbursement Agreement. Fannie Mae will have no obligation under the Credit Facility to pay premium, if any, on the Bonds. See APPENDIX E – "FORM OF CREDIT FACILITY." Fannie Mae's obligation to make payments under the Credit Facility will be absolute, unconditional and irrevocable. See "SECURITY FOR THE BONDS – Credit Facility." Such obligation will be a general, unsecured obligation of Fannie Mae. If Fannie Mae fails to perform that obligation, the Trustee would receive only payments and other recoveries on the Loan itself, and a delinquency or default on the Loan at that time would seriously and adversely affect monthly payments to the Trustee.

Except as otherwise provided herein, so long as the Bonds bear interest at a rate determined weekly, the owners of any Bonds are entitled to demand purchase of such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon satisfaction of the terms and conditions described herein. The Bonds are also subject to mandatory tender for purchase under certain circumstances, such as adjustment of the interest rate on the Bonds to a Reset Rate or a Fixed Rate and substitution of a credit and/or liquidity instrument for the Credit Facility. The Borrower has the right to cause an adjustment of the interest rate on the Bonds and to provide a substitute credit

and/or liquidity instrument for the Credit Facility (an "Alternate Credit Facility") at any time upon satisfaction of the terms and conditions set forth in the Indenture and the Financing Agreement. Stern Brothers & Co. will act as the remarketing agent (the "Remarketing Agent").

The Development is required to be occupied in part by persons or families whose incomes satisfy certain provisions of the Act, the Internal Revenue Code of 1986, as amended (the "Code"), the applicable income tax regulations issued under the Code and the requirements of the Issuer as set forth in an Amended and Restated Regulatory and Land Use Restriction Agreement dated as of September 1, 2006 (the "Regulatory Agreement") entered into by and among the Issuer, the Trustee and the Borrower. See "BONDHOLDERS' RISKS," "THE BORROWER, THE DEVELOPMENT AND THE MANAGER" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT."

Any failure of the Borrower to comply with the terms of the Regulatory Agreement could cause interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes, possibly retroactively to the date of issuance of the Bonds. See "TAX MATTERS." None of the Trustee, the Issuer or the Bondholders may cause an acceleration or redemption of the Bonds solely because of a default by the Borrower under the Regulatory Agreement or because interest on the Bonds becomes includible in the gross income of the owners thereof for federal income tax purposes.

Fannie Mae has designated the Loan Servicer to service the Loan. However, Fannie Mae may subsequently designate another eligible servicing institution to service the Loan for Fannie Mae or may elect to service the Loan itself. Neither Fannie Mae nor the Loan Servicer will have any responsibility to monitor the Borrower's compliance with the requirements of the Regulatory Agreement.

The Bonds are payable solely from and secured by, among other property comprising the Trust Estate described in the Indenture and the security for such Bonds, including the following: (a) the Loan, (b) the Issuer's interest in the Financing Agreement (excluding Reserved Rights), the Security Instrument and the other Loan Documents, (c) Fannie Mae's credit enhancement of the Loan and liquidity support for the Bonds Outstanding, pursuant to the Credit Facility, (d) the Net Bond Proceeds, to the extent not disbursed, (e) the Revenues and any other money received by the Trustee for the payment of the principal of and interest on the Bonds, (f) amounts otherwise on deposit in the Funds and Accounts under the Indenture (other than moneys on deposit from time to time in the Rebate Fund, the Costs of Issuance Fund and the Fees Account), (g) certain Investment Income (excluding Investment Income earned on amounts on deposit in the Rebate Fund and Investment Income earned on amounts on deposit in the Costs of Issuance Fund), (h) all documents, securities, instruments and general intangibles and any and all other rights and interests in property, whether tangible or intangible, from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture for the Bonds by the Issuer, or by anyone on its behalf, or with its written consent, to the Trustee, and (i) all of the proceeds of the foregoing, including, but not limited to, Investments and Investment Income (except as excluded in (g) above). See "SECURITY FOR THE BONDS – Pledge of Trust Estate."

Pursuant to the Indenture and the Assignment, the Issuer will assign and deliver to Fannie Mae and the Trustee, as their interests may appear, subject to the reservation of certain rights by the Issuer, all of its right, title and interest in and to the Loan, the Loan Documents and the Financing Agreement. Under the Assignment, Fannie Mae will exercise all of the "Assigned Rights," i.e. rights in respect of the Loan, the Loan Documents and the Financing Agreement, so long as there is no Wrongful Dishonor under the Credit Facility and the Financing Agreement.

Fannie Mae's obligations with respect to the Loan and the Bonds are solely as provided in the Credit Facility. The obligations of Fannie Mae under the Credit Facility will be obligations solely of Fannie Mae, a federally chartered stockholder-owned corporation, and will not be backed by the full faith and credit of the United States of America. The Bonds are not a debt of the United States of America or any agency or instrumentality of the United States of America or of Fannie Mae. The Bonds are not guaranteed by the full faith and credit of the United States of America.

PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS IS NOT GUARANTEED BY FANNIE MAE. FANNIE MAE'S OBLIGATIONS WILL BE CONTAINED IN THE CREDIT FACILITY, SO LONG AS THE CREDIT FACILITY IS IN EFFECT, AND WILL BE LIMITED SOLELY TO ITS OBLIGATIONS THEREUNDER AS DESCRIBED GENERALLY HEREIN. THE OBLIGATIONS OF FANNIE MAE UNDER THE CREDIT FACILITY WILL BE OBLIGATIONS SOLELY OF FANNIE MAE. THE OBLIGATIONS OF FANNIE MAE ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA, BUT BY THE CREDIT OF FANNIE MAE, A FEDERALLY CHARTERED, STOCKHOLDER-OWNED CORPORATION. SEE "FANNIE MAE."

The Bonds are subject to optional and special mandatory redemption prior to maturity as described under the heading "THE BONDS – Redemption Provisions."

Brief descriptions of the Bonds, the security for the Bonds, the Issuer, Fannie Mae, the Loan Servicer, the Borrower, estimated sources and uses of funds and the Development are included in this Official Statement together with summaries of certain provisions of the Indenture, the Financing Agreement, the Regulatory Agreement and the Reimbursement Agreement and forms of the Credit Facility and opinion of Bond Counsel. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the Financing Agreement, the Regulatory Agreement, the Credit Facility and other documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture and the information with respect thereto in the aforementioned documents, copies of which are available for inspection in the designated office of the Trustee.

THE BONDS

The Official Statement, in general, describes the Bonds only during the Weekly Variable Rate period and is not intended for use with respect to the Bonds during any Reset Period or the Fixed Rate Period. **Capitalized terms not otherwise defined will have the meaning given to such terms in Appendix A. This section should be read in conjunction with Appendix A.**

General

The Bonds are dated as of the date of delivery and will mature on the Maturity Date, subject to prior redemption as provided in the Indenture. Pursuant to the Indenture, interest on the Bonds will be payable to the registered owners thereof, as of the close of business on the Record Date, in accordance with the terms set forth in the Indenture, on each Interest Payment Date. The Bonds will bear interest at the initial rate of interest as determined in connection with the initial offering of the Bonds from the Closing Date through and including September 20, 2006, and thereafter the Bonds are to bear interest at the Weekly Variable Rate until the interest rate on the Bonds is adjusted to a Reset Rate or a Fixed Rate. The interest rate on the Bonds will be determined by Stern Brothers & Co., or its successor as remarketing agent (the "Remarketing Agent"). Except during a Reset Period or a Fixed Rate Period, the Bonds will bear interest at the Weekly Variable Rate from time to time as described below. During the Weekly

Variable Rate Period, interest will accrue on the basis of a 365-or 366-day year, as applicable, for the actual number of days elapsed.

During each Weekly Variable Rate Period, the Remarketing Agent will determine the Weekly Variable Rate for each Week not later than 4:00 p.m. Eastern Time on each Rate Determination Date. The Weekly Variable Rate will be the minimum rate of interest necessary, in the professional judgment of the Remarketing Agent, taking into consideration prevailing market conditions, to enable the Remarketing Agent to remarket all of the Bonds on the applicable Rate Determination Date at par plus accrued interest on such Bonds for that Week. The Weekly Variable Rate so determined will be effective for the Week for which such rate was determined. The Remarketing Agent will provide notice of the Weekly Variable Rate before 5:00 p.m. Eastern Time on the Rate Determination Date by telephone to any Beneficial Owner, upon request, and to the Trustee, the Loan Servicer and not later than the next Business Day to the other Remarketing Notice Parties by Electronic Means. The Weekly Variable Rate so determined by the Remarketing Agent will be conclusive and binding upon the Remarketing Notice Parties and the Registered Owners.

So long as the Bonds bear interest at the Weekly Variable Rate, one or more Credit Facilities providing credit support for the Loan or the Bonds and liquidity support for the Bonds must be in effect.

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Ownership interest in the Bonds may be purchased in book-entry form only. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Bondholders will mean Cede & Co. and will not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds while under the Book-Entry System will be made in accordance with the rules, regulations and procedures established by DTC in connection with such Book-Entry System. See "Book-Entry Only System" below.

Failure by Remarketing Agent to Determine Weekly Variable Rate

If the Remarketing Agent fails or refuses to determine the Weekly Variable Rate applicable for any Week, the interest rate to be borne by the Bonds during such Week will be the latest USD-BMA Municipal Swap Index published on or before the Rate Determination Date, or, in the event the USD-BMA Municipal Swap Index is no longer published, the last Weekly Variable Rate determined by the Remarketing Agent.

Adjustment of the Interest Rate on the Bonds

At the option of the Borrower, the interest rate on all Outstanding Bonds may be adjusted on any Interest Payment Date from the Weekly Variable Rate to a Reset Rate. Each such adjustment is subject to the satisfaction of the conditions precedent set forth in the Indenture, including, but not limited to (a) not less than 45 days before the proposed Reset Date the Borrower delivers written notice to the other Remarketing Notice Parties of the proposed adjustment, which notice must be accompanied by the written preliminary consent of the Credit Provider, and (b) not less than 30 days before the proposed Reset Date the Trustee gives written notice to the Bondholders stating, among other things, that all Bonds are subject to mandatory tender and purchase on the proposed Reset Date. The Indenture also requires that on or prior to the proposed Reset Date there be delivered by the Borrower (i) to the Trustee and the Loan Servicer, the written consent of the Credit Provider, and (ii) to the other Remarketing Notice Parties, a Favorable Opinion of Bond Counsel.

At the option of the Borrower, with the consent of the Credit Provider, the interest rate on all Outstanding Bonds may be adjusted to the Fixed Rate, from the Weekly Variable Rate on any Interest Payment Date designated by the Borrower. Each adjustment is subject to satisfaction of conditions precedent set forth in the Indenture, including, but not limited to (a) written notice, not less than 45 days before the proposed Fixed Rate Adjustment Date, from the Borrower to the other Remarketing Notice Parties, which notice must designate the Fixed Rate Adjustment Date and be accompanied by the written preliminary consent of the Credit Provider, and (b) written notice, not less than 30 days before the proposed Fixed Rate Adjustment Date, from the Trustee to the Bondholders as provided in the Indenture. Among other things, the Indenture also requires that on or prior to the proposed Fixed Rate Adjustment Date there be delivered by the Borrower (i) to the Trustee, the written consent of the Credit Provider or a written waiver from the Issuer of the requirement for a Credit Facility during the Fixed Rate Period, and (ii) to the other Remarketing Notice Parties, a Favorable Opinion of Bond Counsel.

The Bonds are subject to mandatory tender and purchase on each Adjustment Date, as set forth in, and in accordance with, the Indenture. See "THE BONDS — Mandatory Tender — Mandatory Tender Dates (Other Than Upon Default); Notice" below. The Indenture states that at least 30 days prior to the Adjustment Date, the Trustee will give notice to Bondholders of the proposed Adjustment Date and that all Bonds are thereupon subject to mandatory tender and purchase.

THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE ADEQUATE INFORMATION TO, AND CANNOT BE RELIED UPON BY, PROSPECTIVE PURCHASERS OF BONDS PURCHASED AFTER THE PERIOD DURING WHICH THE BONDS BEAR INTEREST AT A WEEKLY VARIABLE RATE.

Optional Tender

Optional Tender. Subject to the provisions of the Indenture, during any Weekly Variable Rate Period, the Trustee will purchase any Bond on behalf of and as agent for the Borrower, but solely from the sources provided in the Indenture, on the demand of the Beneficial Owner of such Bond. The purchase price of any Bond tendered for purchase will be equal to 100% of the principal amount of such Bond plus accrued interest, if any, to the date of purchase. The Beneficial Owner may demand purchase of its Bond by delivery of a Bondholder Tender Notice complying with the requirements set forth in the last sentence of this paragraph to the Tender Agent at its Designated Office on any Business Day. Any Bondholder Tender Notice received by the Tender Agent after 3:30 p.m. Eastern time on a Business Day will be treated as received at 9:00 a.m. Eastern time on the following Business Day. The date of purchase will be the date selected by the Beneficial Owner in the Bondholder Tender Notice; provided, however, that such date is a Business Day which is at least seven days after the date of the delivery of the Bondholder Tender Notice to the Tender Agent. A Bondholder Tender Notice complies with the requirements of the Indenture if it: (a) is accompanied by a guaranty of signature acceptable to the Tender Agent; and (b) contains the CUSIP number of the Bond, the principal amount to be purchased (or portion of a Bond, provided that the retained portion is an Authorized Denomination), the name, address and tax identification number or social security number of the Beneficial Owner of the Bond demanding such payment and the purchase date.

Irrevocability of Optional Tender. By delivering a Bondholder Tender Notice, subject to provisions related to the Book-Entry System, the Beneficial Owner irrevocably agrees to deliver the Tendered Bond (with an appropriate transfer of registration form executed in blank and accompanied by a guaranty of signature satisfactory to the Tender Agent) to the Designated Office of the Tender Agent or any other address designated by the Tender Agent, at or prior to 10:00 a.m. Eastern Time, on the date of purchase specified in the Bondholder Tender Notice. Any election by a Beneficial Owner to tender a

Bond or Bonds (or a portion of a Bond or Bonds) for purchase on a Business Day in accordance with the Indenture will also be binding on any transferee of the Beneficial Owner making such election.

Compliance with Optional Tender Requirements. Bonds will be required to be purchased as described above under “Optional Tender” only if the Bonds so delivered to the Tender Agent conform in all respects to the description of such Bonds in the Bondholder Tender Notice. The Tender Agent will determine in its sole discretion whether a Bondholder Tender Notice complies with the requirements of the Indenture and whether Bonds delivered conform in all respects to the description of the Bonds in the Bondholder Tender Notice. Such determination will be binding on the other Remarketing Notice Parties and the Beneficial Owner of the Bonds.

Untendered Bonds. If after delivery of a Bondholder Tender Notice to the Tender Agent the holder making such election fails to deliver any of the Bonds described in the Bondholder Tender Notice as required by the Indenture, each untendered Bond or Bonds or portion thereof (“Untendered Bond” or “Untendered Bonds”) described in such Bondholder Tender Notice will be deemed to have been tendered to the Tender Agent for purchase, to the extent that there is on deposit in the Bond Purchase Fund on the applicable purchase date an amount sufficient to pay the purchase price of such Untendered Bond, and such Untendered Bond from and after such purchase date, will cease to bear interest and no longer be considered to be Outstanding. The Tender Agent will promptly give notice by registered or certified first class mail, postage prepaid, to each Beneficial Owner of any Bond which has been deemed to have been purchased as described in this paragraph, stating that interest on such Untendered Bond ceased to accrue from and after the date of purchase and that moneys representing the purchase price of such Untendered Bond are available against delivery of such Untendered Bond at the Designated Office of the Tender Agent. The Issuer will sign and the Trustee will authenticate and deliver for redelivery a new Bond or Bonds in replacement of such Untendered Bond not so delivered. The replacement of any Bond will not be deemed to create new indebtedness, but will be deemed to evidence the indebtedness previously evidenced by the Untendered Bond.

Mandatory Tender

Mandatory Tender Dates (Other Than Upon Default); Notice. The holders of the Bonds will be required to tender their Bonds to the Tender Agent for purchase on each Mandatory Tender Date by the Trustee acting on behalf of and as agent for the Borrower, but solely from the sources described under “Payment and Sources of Purchase Price” below, at a purchase price equal to 100% of the principal amount of the Bonds, plus accrued interest, to the applicable Mandatory Tender Date. The Owner of any Bond may not elect to retain its Bonds. Mandatory Tender Dates include each Adjustment Date (even if a proposed change in Mode fails to occur), each Extension Date (unless the Trustee receives an extension of as the case may be, the Liquidity Expiration Date or an Alternate Credit Facility prior to the Extension Date in which case such Extension Date shall not be a Mandatory Tender Date), and each Substitution Date. The Trustee will give notice of Mandatory Tender Dates as follows:

(i) Not less than 30 days before any proposed Adjustment Date, the Trustee will give notice by first class mail, postage prepaid, to the Bondholders stating the information required to be set forth in notices pursuant to the applicable provisions of the Indenture.

(ii) Not less than ten days before any Substitution Date, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating (a) an Alternate Credit Facility will be substituted for the Credit Facility then in effect, (b) the Substitution Date, (c) that the Bonds are required to be tendered on the Substitution Date and (d) that Bondholders will not have the right to elect to retain their Bonds.

(iii) So long as the initial Credit Facility is in effect, not less than ten days before any Extension Date, if the Trustee has not received either an extension of the Liquidity Expiration Date of the Credit Facility or a binding commitment from Fannie Mae to extend the Liquidity Expiration Date of the Credit Facility, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating (a) the Extension Date and that no extension of or commitment to extend the Liquidity Expiration Date then in effect has been received by the Trustee, (b) that such Bonds are required to be tendered on the Extension Date, (c) that the Bondholders will not have the right to elect to retain such Bonds if the Liquidity Expiration Date is not extended and (d) that such Bonds shall not be required to be so tendered if the Trustee receives an extension of the Liquidity Expiration Date prior to the Extension Date.

(iv) Not less than ten days before any Extension Date, if the Trustee has not received a binding commitment to extend the applicable Credit Facility, the Trustee will give notice by first class mail, postage prepaid, to the Bondholders stating (a) the Extension Date and that no commitment to extend the Credit Facility then in effect has been received by the Trustee, (b) that such Bonds are required to be tendered on the Extension Date (unless an extension of the Alternate Credit Facility is received prior to the Extension Date, notice of which will be given promptly to Bondholders), and (c) that the Bondholders will not have the right to elect to retain such Bonds if an extension of the Credit Facility is not received.

If the Fannie Mae Credit Facility is in effect, not less than 10 days before any Liquidity Expiration Date, if the Trustee has not received a binding commitment from Fannie Mae to extend the Liquidity Expiration Date of the Fannie Mae Credit Facility, the Trustee will give notice by first class mail, postage prepaid, to the Bondholders stating: (a) the Liquidity Expiration Date and that no commitment to extend the Liquidity Expiration Date has been received by the Trustee, (b) that such Bonds are required to be tendered on the first Business Day before a Liquidity Expiration Date (unless an extension of the Liquidity Expiration Date is received prior to the first Business Day before the Liquidity Expiration Date), and (c) that the Bondholders will not have the right to elect to retain such Bonds if an extension of the Liquidity Expiration Date is not received.

Mandatory Tender Upon Default; Notice. The Bonds are subject to Mandatory Tender upon receipt by the Trustee of written notice from the Credit Provider stating that an Event of Default under the Reimbursement Agreement has occurred and directing that the Bonds be subject to Mandatory Tender. Such Mandatory Tender will be made on the earliest practicable date, after notice of tender has been given to Bondholders and will be payable solely from the sources provided in the Indenture at a purchase price equal to 100% of the principal amount of the Bonds plus accrued interest to the Mandatory Tender Date. The Owner of any Bond may not elect to retain its Bond. Immediately upon receipt by the Trustee of such written notice from the Credit Provider, the Trustee will give notice by first class mail, postage prepaid to the Owners of the Bonds stating that (a) such event has occurred, (b) such Bonds are required to be tendered on the Mandatory Tender Date specified in such notice, and (c) the Bondholders thereof will not have the right to elect to retain their Bonds.

Untendered Bonds. Pursuant to the Indenture, any Bond which is not so tendered on a Mandatory Tender Date ("Untendered Bond") will be deemed to have been tendered to the Tender Agent as of such Mandatory Tender Date, and, from and after such Mandatory Tender Date, will cease to bear interest and no longer will be considered to be Outstanding. In the event of a failure by Bondholders to deliver Bonds on the Mandatory Tender Date, such Bondholders will not be entitled to any payment (including any interest to accrue from and after the Mandatory Tender Date) other than the purchase price for such Untendered Bond, and any Untendered Bond will no longer be entitled to the benefits of the Indenture, except for the purpose of payment of the purchase price for such Untendered Bond. The Issuer will sign, and the Trustee will authenticate and deliver to the Remarketing Agent for redelivery to the purchaser, a

new Bond in replacement of the Untendered Bond. Pursuant to the Indenture, the replacement of any such Untendered Bond will not be deemed to create new indebtedness, but will be deemed to evidence the indebtedness previously evidenced by the Untendered Bond.

Payment and Sources of Purchase Price. The Tender Agent will make payment for Bonds purchased as described under this paragraph at or before 4:00 p.m. Eastern time on the Mandatory Tender Date. The Trustee will pay the purchase price: (i) for Bonds purchased as described under “Mandatory Tender Dates (Other Than Upon Default); Notice,” first from remarketing proceeds on deposit in the Bond Purchase Fund, second, from proceeds of a payment under the Credit Facility, and third, from the Borrower; and (ii) for Bonds purchased as described under “Mandatory Tender Upon Default; Notice,” first from proceeds of a payment under the Credit Facility, and second, from the Borrower. See “SECURITY FOR THE BONDS — Credit Facility.”

Remarketing Agent

Pursuant to a Remarketing Agreement, dated as of September 1, 2006 (the “Remarketing Agreement”), by and between the Remarketing Agent and the Borrower, the Remarketing Agent is required to determine the interest rates on the Bonds in accordance with the Indenture and is required to use its best efforts to remarket the Bonds in accordance with the Indenture and the Remarketing Agreement.

Redemption Provisions

The Bonds are subject to optional and mandatory redemption at the times and redemption prices set forth in the Indenture and summarized below. All redemptions must be in Authorized Denominations.

Optional Redemption. The Bonds are subject to optional redemption in whole or in part upon optional prepayment of the Loan by the Borrower on any Interest Payment Date within a Weekly Variable Rate Period and on any Adjustment Date at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the Redemption Date.

Mandatory Redemption. The Bonds are subject to mandatory redemption on the earliest practicable Redemption Date for which timely notice of redemption can be given pursuant to the Indenture following the occurrence of the event requiring such redemption. The principal of and accrued interest on any Bond being mandatorily redeemed will be paid from an Advance under the Credit Facility. Bonds will be redeemed at a redemption price equal to 100% of the principal amount of such Bonds plus accrued interest to the Redemption Date. Bonds subject to mandatory redemption in part will be redeemed in Authorized Denominations or will be redeemed in such amounts so that Bonds Outstanding following the redemption are in Authorized Denominations. If the Trustee receives an amount for the mandatory redemption of Bonds which is not equal to a whole integral multiple of the Authorized Denomination, the Trustee will redeem Bonds in an amount equal to the next lowest whole integral multiple of the Authorized Denomination to the amount received by the Trustee and hold any excess amount in the Redemption Account.

Casualty or Condemnation. The Bonds will be redeemed in whole or in part in the event and to the extent that proceeds of insurance from any casualty to, or proceeds of any award from any condemnation of, or any award as part of a settlement in lieu of condemnation of, the Development are applied in accordance with the Security Instrument to the prepayment of the Loan.

After an Event of Default Under the Reimbursement Agreement. The Bonds will be redeemed in whole or in part in an amount specified by and at the direction of the Credit Provider requiring that the

Bonds be redeemed pursuant to the provisions of the Indenture described in this paragraph following any Event of Default under the Reimbursement Agreement. The Redemption Date will be the earliest practicable date, but in no event will such redemption occur later than two Business Days prior to the date, if any, that the Credit Facility terminates on account of the Credit Provider's giving of direction to the Trustee pursuant to the provisions of the Indenture described in this paragraph to redeem all of the Bonds.

Principal Reserve Fund. The Bonds will be redeemed in whole or in part as follows: (i) on each Adjustment Date in an amount equal to the amount which has been transferred from the Principal Reserve Fund on such Adjustment Date to the Redemption Account of the Revenue Fund in accordance with the Indenture; and (ii) on any Interest Payment Date in an amount equal to the amount which has been transferred from the Principal Reserve Fund on such Interest Payment Date to the Redemption Account as provided in the Indenture.

Sinking Fund Redemption. The Bonds will be subject to mandatory sinking fund redemption on each Interest Payment Date in the amounts set forth in the Sinking Fund Schedule attached to the Indenture (subject to the provisions of the Indenture permitting amounts to be credited toward part or all of any one or more Sinking Fund Payments) and contained at "APPENDIX H—SINKING FUND SCHEDULE"; provided that, (i) in the event of a partial redemption of Bonds described above under "Optional Redemption", "Casualty or Condemnation", "After an Event of Default Under the Reimbursement Agreement" and as described in this paragraph, the payments required under the Sinking Fund Schedule shall be reduced by the amount of such redemption on a prorata basis, and (ii) in the event of a partial redemption of Bonds, as described above under "Principal Reserve Fund", the payments required pursuant to the Sinking Fund Schedule on or after the date of such redemption shall be reduced in Authorized Denominations by the amount of such redemption in chronological order beginning with the next scheduled payment. The Borrower will provide the Trustee with a revised Sinking Fund Schedule reflecting such adjusted schedule. In the case where redemptions described above under "Principal Reserve Fund" and in this paragraph are due in the same year, sinking fund redemptions in such year shall be reduced by the amount paid as described above under "Principal Reserve Fund".

Notice of Redemption

For any redemption of Bonds described above (other than a redemption of Bonds described under "After an Event of Default under the Reimbursement Agreement" or "Sinking Fund Redemption" above), the Trustee will give notice of redemption by first class mail, postage prepaid, not less than ten days prior to the specified Redemption Date, to the Registered Owner of each Bond to be redeemed at the address of such Registered Owner as shown on the Bond Register. With respect to Book-Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee will not be required to give the notice set forth in the immediately preceding sentence. In the case of a redemption of the Bonds described under "After an Event of Default under the Reimbursement Agreement" above, the Trustee will give immediate notice of redemption. In the case of a redemption of the Bonds described under "Sinking Fund Redemption" above, the Trustee will give notice of redemption of Bonds in such amount as is necessary to complete the retirement of a principal amount of Bonds equal to the unsatisfied balance of the applicable Sinking Fund Payment as soon as practical after the 30th day preceding the Sinking Fund Payment. In the case of an optional redemption of Bonds, the notice of redemption will state that it is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Bonds (a "Conditional Redemption"), and such notice and optional redemption will be of no effect if either (a) by no later than the scheduled Redemption Date, sufficient moneys to redeem the Bonds have not been deposited with the Trustee, or if such moneys are deposited, are not available on the Redemption Date, or (b) the Trustee at the direction of the Credit Provider rescinds such notice on or prior to the scheduled Redemption Date.

At the same time notice of redemption is sent to the Registered Owners, the Trustee will send notice of redemption by first class mail, overnight delivery service or other overnight means, postage or service prepaid (a) to the Rating Agency, (b) if the Bonds are not subject to the Book-Entry System, to certain municipal registered securities depositories (as described in the Indenture) which are known to the Trustee, on the second Business Day prior to the date the notice of redemption is mailed to the Bondholders, to be holding Bonds, and (c) at least two of the national information services (as described in the Indenture) that disseminate securities redemption notices.

The Trustee will rescind any Conditional Redemption if the requirements set forth above have not been met on or before the Redemption Date or the Trustee has received a direction to cancel the Conditional Redemption from the Credit Provider. The Trustee will give notice of rescission by the same means as is provided above for the giving of notice of redemption or by Electronic Means confirmed in writing. The optional redemption will be canceled once the Trustee has given notice of rescission. Any Bonds subject to Conditional Redemption where redemption has been rescinded will remain Outstanding, and neither the rescission nor the failure of funds being made available in part or in whole on or before the Redemption Date will constitute an Event of Default under the Indenture. Notwithstanding notice having been given in the manner provided above, any optional redemption of Bonds will be canceled with the consent of or at the direction of the Credit Provider if the Credit Provider has notified the Trustee in writing that an Event of Default under the Reimbursement Agreement has occurred.

Content of Notice

Each notice of redemption must state: (i) the date of the redemption notice; (ii) the Closing Date and the complete official name of the Bonds, including the series designation; (iii) for each Bond to be redeemed, the interest rate or that the interest rate is variable, maturity date and in the case of a partial redemption of Bonds, the principal amount of each Bond to be redeemed; (iv) the CUSIP numbers of all Bonds being redeemed; (v) the place or places where the Bonds to be redeemed must be surrendered for payment and where amounts due upon such redemption will be payable upon surrender of the Bonds to be redeemed; (vi) the Redemption Date and redemption price of each Bond to be redeemed; (vii) the name, address, telephone number and contact person at the office of the Trustee with respect to such redemption; (viii) that interest on all Bonds to be redeemed will not accrue from and after the Redemption Date; (ix) if a redemption is a Conditional Redemption, that redemption is conditional upon receipt by the Trustee of sufficient moneys to redeem the Bonds including Available Moneys to pay any redemption premium and (x) that the Credit Provider may direct the Trustee to cancel such redemption upon the occurrence of any Event of Default under the Reimbursement Agreement.

If notice of redemption is given substantially in accordance with the Indenture and as provided above, failure of any Bondholder to receive such notice, or any defect in the notice, will not affect the redemption or the validity of the proceedings for the redemption of the Bonds.

Redemption Payments

If notice of redemption has been given and the conditions for such redemption, if applicable, have been met, the Indenture states that the Bonds called for redemption will become due and payable on the Redemption Date, interest on those Bonds will cease to accrue from and after the Redemption Date and the called Bonds will no longer be Outstanding. The holders of the Bonds so called for redemption will thereafter no longer have any security or benefit under the Indenture except to receive payment of the redemption price for such Bonds upon surrender of such Bonds to the Trustee. All moneys held by or on behalf of the Trustee for the redemption of particular Bonds will be held in trust for the account of the holders of the Bonds to be redeemed. If less than the entire principal amount of a Bond is called for redemption, the Issuer will execute, and the Trustee will authenticate and deliver, upon the surrender of

such Bond to the Trustee, without charge by the Issuer or the Trustee to the Bondholder, in exchange for the unredeemed principal amount of such Bond, a new Bond or Bonds of the same interest rate, maturity and term, in any Authorized Denomination, in aggregate principal amount equal to the unredeemed balance of the principal amount of the Bond so surrendered.

Selection of Bonds to be Redeemed Upon Partial Redemption

If less than all the Outstanding Bonds are called for redemption, the Trustee will select randomly the Bonds or portions of the Bonds in Authorized Denominations, to be redeemed. In the selection process (i) any Pledged Bond Outstanding will be called for redemption before any other Bonds are selected for redemption and (ii) if applicable, the Bonds with the highest interest rate will be called for redemption before any other Bonds are selected for redemption. Bonds which have previously been selected for redemption will not be deemed Outstanding. Notwithstanding the foregoing, the Securities Depository for Book-Entry Bonds will select the Bonds for redemption within particular maturities according to its stated procedures.

Purchase of Bonds in Lieu of Redemption

If the Bonds are called for redemption in whole or in part, the Bonds called for redemption may be purchased in lieu of redemption in accordance with the Indenture. Purchase in lieu of redemption will be available for all of the Bonds called for redemption or for such lesser portion of such Bonds as constitutes Authorized Denominations. The Credit Provider or the Borrower with written consent of the Credit Provider may direct the Trustee to purchase all or such lesser portion of the Bonds so called for redemption.

Book-Entry Only System

The Bonds will be issued in book-entry form as one fully registered Bond for each maturity of each series of the Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds and as securities depository for the Bonds. Purchasers of the Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement (except under the caption "TAX MATTERS"), so long as all of the Bonds are immobilized in the custody of DTC, references to owners of Bonds mean DTC or its nominee. As initially issued, the Bonds will be held by the Trustee pursuant to DTC's "FAST" procedures.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities

transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation ("NSCC"), Fixed Income Clearing Corporation ("FICC"), MBS Clearing Corporation ("MBSCC"), and Emerging Markets Clearing Corporation ("EMCC") each subsidiaries of DTCC, as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

The Issuer, the Trustee, Fannie Mae, the Loan Servicer and the Borrower will not have any responsibility or obligation with respect to (a) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (b) the delivery to any DTC Participant or any Indirect Participant or any other person, other than Cede & Co., as nominee of DTC, as Bondholder on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (c) the payment to any DTC Participant or Indirect Participant or any other person other than Cede & Co., as nominee of DTC, as Bondholder on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on, the Bonds, or (d) any consent given by Cede & Co., as nominee of DTC as registered owner. So long as certificates for the Bonds are not issued pursuant to the Indenture and the Bonds are registered in the name of Cede & Co., as nominee for DTC, the Issuer, the Borrower, Fannie Mae, the Loan Servicer and the Trustee will treat DTC or any successor securities depository as, and deem DTC or any successor securities depository to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, the (i) payment of principal and interest on the Bonds, (ii) giving notice of redemption and other matters with respect to the Bonds, (iii) registration of transfers with respect to the Bonds, and (iv) selection of Bonds for redemption.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCE HEREIN TO THE BONDHOLDERS OR OWNERS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. SO LONG AS DTC OR ITS NOMINEE, CEDE & CO., IS THE REGISTERED OWNER OF THE BONDS, PAYMENTS OF PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS WILL BE MADE DIRECTLY TO CEDE & CO., WHICH WILL REMIT SUCH PAYMENTS TO PARTICIPANTS OF DTC. SUCH PARTICIPANTS WILL, IN TURN, REMIT SUCH PAYMENTS TO THE BENEFICIAL OWNERS OF THE BONDS.

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

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

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

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

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed

satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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

In the event the Bonds are removed from the Book-Entry System, the principal of and the interest on the Bonds will be payable to the persons in whose names the Bonds are registered on the Bond Register at the close of business on the applicable Record Date. Payment of interest on the Bonds will be made to the registered owners of the Bonds (as determined at the close of business on the Record Date next preceding the applicable Bond Payment Date) by check drawn upon the Trustee and mailed by first-class mail, postage prepaid, on the Interest Payment Date. The principal amount of any Bond and premium, if any, together with interest payable on any Bond Payment Date (other than interest payable on a regularly scheduled Interest Payment Date) will be made by check only upon presentation and surrender of the Bond on or after its maturity date or date fixed for purchase, redemption or other payment at the office of the Trustee designated by the Trustee for that purpose. Notwithstanding the foregoing, payment of principal of, premium, if any, and interest on any Bond on any Bond Payment Date will be made by wire transfer to any account within the United States of America designated by a Bondholder owning \$1,000,000 or more in aggregate principal amount of Bonds (upon written request submitted to the Trustee by such Bondholder not less than five days prior to the Record Date for the applicable Bond Payment Date and if such Bondholder otherwise complies with the reasonable requirements of the Trustee). A request for wire transfer may specify that it is effective with respect to all succeeding payments of principal, premium, if any, and interest and will be so effective unless and until rescinded in writing by the Bondholder at least five days prior to the Record Date for the Bond Payment Date to which such rescission is designated to apply. If interest on the Bonds is in default, the Trustee will, prior to payment of interest, establish a special record date (the "Special Record Date") for such payment, which Special Record Date will be not more than 15 nor less than 10 days prior to the date of the proposed payment. Payment of such defaulted interest will then be made by check or wire transfer, as described above, mailed or remitted to the persons in whose names the Bonds are registered on the Special Record Date at the addresses or accounts of such persons shown on the Bond Register.

The Issuer or the Borrower, with the consent of the other, but without the consent of any other person, may terminate the services of DTC with respect to the Bonds. If the Borrower is in default under any Bond Document or any Loan Document, the Issuer will not be required to obtain the consent of the Borrower to termination of the services of DTC. Upon the discontinuance or termination of the services of DTC, unless a substitute securities depository is appointed to undertake the functions of DTC under the Indenture, the Issuer, at the expense of the Borrower, is obligated under the Indenture to deliver Bond certificates to the Beneficial Owners of the Bonds, and the Bonds will no longer be restricted to being registered in the Bond Register in the name of Cede & Co. as nominee of DTC. In that event, Bonds will be printed and delivered.

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

ESTIMATED SOURCES AND USES OF FUNDS

The following is a list of the estimated sources and uses of funds.

Source of Funds

Bond Proceeds	\$5,015,000.00
Borrower Deposit	<u>\$ 356,691.39</u>
Total Source of Funds	<u>\$5,371,691.39</u>

Uses of Funds

Repay Prior Bonds	\$5,015,000.00
Costs of Issuance	<u>\$ 356,691.39</u>
Total Uses of Funds	<u>\$5,371,691.39</u>

SECURITY FOR THE BONDS

Pledge of Trust Estate

In order to secure the payment of the principal of, redemption premium, if any, and interest on, and the purchase price of the Bonds according to their tenor and effect; to secure, on a parity basis, all obligations owed to the Credit Provider under the Credit Facility Documents and the Loan Documents; and to secure the performance and observance by the Issuer of the covenants expressed or implied in the Indenture and in the Bonds, the Issuer has assigned and granted a security interest in and to the property described in paragraphs (i) through (v) below to the Trustee, for the benefit of the Bondholders, and to the Credit Provider, and its successors and assigns, as their interests may appear, subject to the provisions of the Assignment and subject to the provisions of the Indenture permitting the application of such property for the purposes set forth in the Indenture:

(i) all right, title and interest of the Issuer in and to the Financing Agreement, the Loan, including the Note, the Security Instrument and the other Loan Documents, and all amendments, modifications, supplements, renewals and restatements of the foregoing, reserving, however, the Reserved Rights;

(ii) all rights to receive payments on the Note and under the other Loan Documents, including all proceeds of insurance or condemnation awards, reserving, however, the Reserved Rights;

(iii) all right, title and interest of the Issuer in and to the Revenues, the Net Bond Proceeds and the accrued interest, if any, derived from the sale of the Bonds, and all Funds and Accounts under the Indenture (including, without limitation, moneys, documents, securities, Investments, Investment Income, instruments and general intangibles on deposit or otherwise held by the Trustee) but excluding all moneys in the Fees Account, the Rebate Fund and the Costs of Issuance Fund, except to the extent funded with Net Bond Proceeds (including within such exclusion Investment Income retained in the Costs of Issuance Fund and the Rebate Fund;

(iv) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time conveyed, mortgaged, pledged, assigned or transferred to the Trustee by delivery or by writing of any kind as additional security under the Indenture for the Bonds and the Credit Provider by the Issuer, or by anyone on its

behalf or with its written consent, and the Trustee is authorized by the Indenture to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Indenture; and

(v) all of the proceeds of the foregoing, including, without limitation, Investments and Investment Income (except as excluded above).

Credit Facility

General. In addition to the other security provided under the Indenture, the Credit Facility provides credit enhancement and liquidity support for the Bonds. On the Closing Date, the Trustee is to accept the Credit Facility from Fannie Mae, and thereafter the Trustee is required to abide by and take all actions required of the Trustee under the Credit Facility in accordance with its terms.

The proposed form of the Credit Facility is included in this Official Statement as APPENDIX E – “FORM OF THE CREDIT FACILITY.” Information regarding Fannie Mae is contained herein under the caption “FANNIE MAE.”

Limitations on Rights of Credit Provider. Notwithstanding anything contained in the Indenture to the contrary, all provisions in the Indenture regarding consents, approvals, directions, waivers, appointments, requests or other actions by the Credit Provider will be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and are to be read as if the Credit Provider were not mentioned in such provisions if a Wrongful Dishonor has occurred, but only for so long as the Wrongful Dishonor is continuing; provided, however, that the Credit Provider’s right to notices and the payment of amounts due to the Credit Provider is to continue in full force and effect. The foregoing is not to affect any other rights of the Credit Provider.

Alternate Credit Facility. The Borrower may arrange for the delivery to the Trustee of an Alternate Credit Facility in substitution for the Credit Facility initially provided by Fannie Mae (including, without limitation, a letter of credit, surety bond, insurance policy, standby bond purchase agreement, a mortgage backed security or other credit or liquidity facility or any combination thereof) which provides credit enhancement for the Loan or the Bonds when due (referred to in this paragraph as “credit support”) and, if applicable, liquidity support for payment of the purchase price of Bonds delivered or deemed delivered in accordance with the Indenture (referred to in this paragraph as “liquidity support”). Upon delivery of an Alternate Credit Facility, the Bonds are subject to mandatory tender for purchase

Replacement Credit Facility. At the request of the Credit Provider, the Trustee is to exchange the Credit Facility with the Credit Provider for a new Credit Facility (a “Replacement Credit Facility”) provided by the Credit Provider, provided that such exchange will not adversely affect the rating then in effect for the Bonds.

Release of Credit Facility. Under the Indenture, the Trustee has covenanted that it will not, without the prior written consent of the Registered Owners of all of the Bonds then Outstanding, transfer, assign or release the Credit Facility until the principal of and interest on the Bonds will have been paid or duly provided for in accordance with the terms of the Indenture, except (a) to a successor Trustee or (b) to Fannie Mae upon expiration or other termination of the Credit Facility in accordance with its terms, including termination on its stated expiration date or (c) upon payment under the Credit Facility of the full amount payable under the Credit Facility. If at any time during the term of the Credit Facility a successor Trustee is appointed and qualified under the Indenture and the Credit Facility is not assignable or transferable to the successor Trustee, the resigning Trustee is to request that Fannie Mae deliver a new

Credit Facility, substantially identical to the Credit Facility, to the successor Trustee, and the resigning Trustee is to continue to serve as Trustee under the Indenture until such time as the new Credit Facility is delivered to the successor Trustee.

FANNIE MAE'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT FACILITY. THE OBLIGATIONS OF FANNIE MAE UNDER THE CREDIT FACILITY WILL BE OBLIGATIONS SOLELY OF FANNIE MAE, A FEDERALLY CHARTERED STOCKHOLDER-OWNED CORPORATION, AND WILL NOT BE BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA OR ANY AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OF AMERICA OR OF FANNIE MAE. THE BONDS ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

BONDHOLDERS' RISKS

The following is a summary of certain risks associated with the purchase of the Bonds. This summary is not intended to be a comprehensive or exhaustive list of the risk factors associated with the Bonds.

Bond Rating Based on Fannie Mae

The rating on the Bonds is based on the Credit Facility and the creditworthiness of Fannie Mae. The main credit risk is that Fannie Mae will fail to perform under the Credit Facility.

Credit Facility

FANNIE MAE'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT FACILITY. THE OBLIGATIONS OF FANNIE MAE UNDER THE CREDIT FACILITY WILL BE OBLIGATIONS SOLELY OF FANNIE MAE, A FEDERALLY CHARTERED STOCKHOLDER-OWNED CORPORATION, AND WILL NOT BE BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA OR ANY OTHER AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OF AMERICA OR OF FANNIE MAE. THE BONDS ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

It is possible, in the event of the insolvency of Fannie Mae, or the occurrence of some other event precluding Fannie Mae from honoring its obligations to make payments as stated in the Credit Facility, that the financial resources of the Borrower will be the only source of payment on the Bonds. There can be no assurance that the financial resources of the Borrower would be sufficient to pay the principal of, premium if any, and interest on the Bonds in the event the Trustee were forced to seek recourse against the Borrower. See "SECURITY FOR THE BONDS."

Limited Obligations

THE BONDS CONSTITUTE A VALID CLAIM OF THE RESPECTIVE BONDHOLDERS THEREOF AGAINST THE TRUST ESTATE, WHICH IS PLEDGED TO SECURE THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS AND WHICH SHALL BE UTILIZED FOR NO OTHER PURPOSE, EXCEPT AS EXPRESSLY AUTHORIZED IN THE INDENTURE. THE BONDS, TOGETHER WITH INTEREST THEREON, ARE LIMITED OBLIGATIONS OF THE ISSUER GIVING RISE TO NO CHARGE AGAINST THE ISSUER'S

GENERAL CREDIT AND PAYABLE SOLELY FROM, AND CONSTITUTE CLAIMS OF THE BONDHOLDERS THEREOF AGAINST ONLY, THE TRUST ESTATE. THE BONDS, THE PREMIUM, IF ANY, AND THE INTEREST THEREON ARE NOT DEEMED TO CONSTITUTE DEBT OF THE ISSUER (EXCEPT TO THE EXTENT OF THE TRUST ESTATE), THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, NOR IN ANY EVENT ARE THE BONDS PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE SPECIFICALLY PLEDGED THERETO. THE ISSUER HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM OR INTEREST ON THE BONDS AGAINST ANY PAST, PRESENT OR FUTURE OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE ISSUER, OR OF ANY SUCCESSOR TO THE ISSUER, AS SUCH, EITHER DIRECTLY OR THROUGH THE ISSUER OR ANY SUCCESSOR TO THE ISSUER, UNDER ANY RULE OF LAW OR EQUITY, STATUTE OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY SUCH OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS, AS SUCH, IS HEREBY EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF, AND CONSIDERATION FOR, THE EXECUTION AND ISSUANCE OF THE BONDS.

Early Redemption

A variety of factors described herein may result in an early redemption of the Bonds. The possibility of an early redemption could affect the ability of the Bonds to be valued or sold at a premium. Early redemption would also cause a loss of any premium otherwise owing to the holder of any Bond. See "THE BONDS – Redemption Provisions."

No Acceleration or Early Redemption Upon Loss of Tax Exemption on the Bonds

The Borrower has covenanted and agreed to comply with the provisions of the Code relating to the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds. The financing documents contain provisions and procedures designed to assure compliance with such covenant. See "TAX MATTERS." However, the Borrower's covenant to comply with the requirements of the Code is nonrecourse to the Borrower, and the Borrower's liability is limited to the revenues and assets comprising the Development. Furthermore, the Borrower's failure to comply with such provisions will not constitute a default under the Loan and will not give rise to a redemption or acceleration of the Bonds (unless Fannie Mae determines, at its option and in its sole and absolute discretion, that such failure will constitute such a default). Consequently, interest on the Bonds may become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds by reason of the Borrower's failure to comply with the requirements of federal tax law, and neither the Issuer, the Trustee nor the Bondholders will have remedies available to them to mitigate the adverse economic effects to the Bondholders of such inclusion by reason of the Borrower's noncompliance.

In December 1999, as a part of a larger reorganization of the Internal Revenue Service ("IRS"), the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds.

Performance of the Development

Due to the inherent uncertainty of future events and conditions, including, without limitation, general interest rate levels, no assurance can be given that revenues generated by the Development will be sufficient to pay debt service on the Loan, operating expenses of the Development, and certain fees payable with respect to the Loan and the Credit Facility. The ability of the Borrower to generate sufficient revenues will be affected by a variety of factors including, but not limited to, the achievement and maintenance of a sufficient level of occupancy, the level of rents prevailing in the market, the ability to achieve increases in rents to cover increased debt service and operating expenses, the level of operating expenses, project management, adverse changes in applicable laws and regulations, and general economic conditions and other factors in the surrounding metropolitan area of the Development. Adverse changes may occur from time to time with respect to any of these factors which may have a negative impact on the occupancy level and rental income of the Development and on the Borrower's ability to pay amounts due and owing under the Bond Documents and Loan Documents. A default by the Borrower under the Financing Agreement, including the failure by the Borrower to pay on the date due any amounts required to be paid by the Borrower under the Financing Agreement, the Note, the Security Instrument or the Reimbursement Agreement, may result in a mandatory redemption or acceleration of the Bonds. No premium will be paid on the Bonds in the event of such a redemption or acceleration. See "THE BONDS – Redemption Provisions – Mandatory Redemption" and "THE BORROWER, THE DEVELOPMENT AND THE MANAGER" and APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Default Provisions and Remedies" attached hereto.

Prior Financial Performance of the Development

The owner of the 99.98% limited partnership interests in the Borrower is required under the Borrower's limited partnership agreement to make contributions to the Borrower to close funding gaps. Fannie Mae has only agreed to deliver a Credit Facility with respect to \$5,015,000 in principal amount of Bonds. The Borrower will borrow approximately \$5,136,000 on a subordinate basis, which loan will be secured by a subordinate deed of trust on the Project. Hunt Building Corporation ("Hunt Building") will contribute an amount equal to the difference between the sum of the principal amount of the Bonds and such subordinate loan and the redemption price of the Prior Bonds in order to bring debt service coverage ratios and loan to value ratios into compliance with Fannie Mae underwriting standards. No assurance can be given that the Development's future performance will permit it to maintain such ratios, pay the Trustee sums due under the Financing Agreement or Fannie Mae sums due under the Reimbursement Agreement. Any failure to do so may constitute a default under the Loan Documents or Credit Facility Documents causing a mandatory tender or redemption of all Bonds. See "THE BONDS—Mandatory Tender Upon Default", and "**Redemption, Mandatory Redemption**".

Estimated Rental Revenue/Vacancies

The economic feasibility of the Development depends in large part upon its being substantially occupied at rent levels adequate to cover all operating expenses and debt service. Although representatives of the Borrower believe, based on surveys of the area where the Development is located, that a substantial number of persons currently need housing facilities such as the Development, occupancy of the Development may be affected by competition from existing housing facilities or from housing facilities which may be constructed in the area served by the Development, including new housing facilities which the Borrower, or its affiliates, may construct. Furthermore, no assurance can be given that the low-income tenants are able to afford the rental rates of the Development, albeit at below market rental rates. The rental rates are capped at 30% of 60% of the area median family income minus an allowance for utility costs authorized under the federal low-income housing tax credit program, thus greatly restricting the rents that may be charged to tenants of the Development. The prospective tenant

pool contains only persons whose income is at or below 60% of the area medium family income. These rent and affordability restrictions are contained in the Extended Low Income Housing Agreement (as defined below), which was recorded in the land records of Williamson County, Texas. These rent and affordability restrictions may adversely affect the revenues of the Development. See “Extended Low Income Housing Agreement.”

Competing Facilities

The Issuer, the Borrower and affiliates of the Borrower and others may develop, construct and/or operate other facilities that could compete with the Development for tenants. Any competing facilities, if so constructed, could adversely affect occupancy and revenues of the Development.

Nonrecourse Obligations

The Borrower’s obligations under the Financing Agreement and the Loan Documents, including the Mortgage and the Note, are strictly nonrecourse obligations. The Borrower has no obligation to fund operating deficits, to cover any losses in the event of a default on the Bonds, or otherwise to invest its own funds in the Development or to continue the Development in operation.

Energy Shortages and Allocations

There may be shortages or increases in the cost of fuel, natural gas, electric power or allocations thereof by suppliers or governmental regulatory bodies in the area of the Development. In the event such shortages, price increases or allocations occur, the operation or construction of the Development may be adversely affected. The Borrower is unable to predict the extent, if any, to which such shortages, price increases or allocations will occur or the degree to which such events will influence the ability of the Borrower to meet its objectives.

Reliance on Management

All decisions with respect to the management of the Borrower will be made by Hunt Building or its subsidiaries or affiliates. Hunt Building was founded in 1947 as a building supply company and is headquartered in El Paso, Texas. Hunt Building is a privately owned, full service development construction company. Hunt Building has designed and built approximately 66,600 housing units of which 49,000 units were completed for every branch of the U.S. armed services. The success of the Borrower will, to a large extent, depend upon the quality of the management of the Borrower’s affairs by Hunt Building.

Extended Low Income Housing Agreement

In connection with the Tax Credits allocated to the Borrower in connection with the Development, the Borrower has executed a Declaration of Land Use Restrictive Covenants for Low-Income Housing Credits, as amended, for the Development in compliance with Section 42 of the Code (the “Extended Low-Income Housing Agreement”). The Extended Low-Income Housing Agreement extends the low-income housing tax credit targeting and rent restrictions for the Development under Section 42 of the Code for at least 15 years beyond the initial 15-year compliance period subject only to certain exceptions. The Extended Low-Income Housing Agreement between the Borrower and the Texas Department of Housing and Community Affairs, as the sole housing credit agency for the State, and recorded in the land records of Williamson County, Texas, is a covenant running with the land. The Extended Low-Income Housing Agreement for the Development, among other things, requires that all of the completed and occupied residential rental units in the Development be occupied by tenants whose

gross income is at or below 60% of the area median gross income and that the units be rent-restricted under Section 42(g)(2) of the Code throughout the extended use period as provided in the Code. The Borrower intends for purposes of Section 42 of the Code, to continue to lease all of the residential rental units in the Development to tenants whose gross income is at or below 60% of area median gross income and to cause such units to be rent-restricted within the meaning of Section 42(g)(2) of the Code. See "THE DEVELOPMENT AND THE PRIVATE PARTICIPANTS – Additional Restrictive Covenants."

Under the Code, the restricted use period terminates prior to its expiration date if the Development is acquired by foreclosure. Notwithstanding the foregoing, the Code requires that any termination of the extended use period due to foreclosure will not permit before the close of the three year period following such foreclosure (i) the eviction or termination of tenancy of a tenant without cause, or (ii) any increase in the gross rent of any such units.

Forward-Looking Statements

Certain statements in this Official Statement that relate to the Development and the Borrower, including, but not limited to, statements under the captions "THE BORROWER, THE DEVELOPMENT AND THE MANAGER" are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the Borrower. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Development and the Borrower to be materially different from any expected future results or performance. Such factors include, but are not limited to, items described herein under "BONDHOLDERS' RISKS."

Enforceability of Remedies

The remedies available to the Trustee and the owners of the Bonds upon an event of default under the Credit Facility, the Indenture, the Regulatory Agreement or the Financing Agreement are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered on the Closing Date, and the obligations of the parties to the documents, 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 equitable remedies and proceedings generally.

FANNIE MAE

The information presented under this caption "FANNIE MAE" has been supplied by Fannie Mae. None of the Issuer, the Trustee, the Borrower or the Underwriter has independently verified such information, and none assumes responsibility for the accuracy of such information.

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. 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 became a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Fannie Mae purchases, sells, and otherwise deals in mortgages in the secondary market rather than as a primary lender. It does not make direct mortgage loans but acquires mortgage loans originated by others. In addition, Fannie Mae issues mortgage-backed securities ("MBS"), primarily in exchange for

pools of mortgage loans from lenders. Fannie Mae receives guaranty fees for its guarantee of timely payment of principal of and interest on MBS certificates.

Fannie Mae is subject to regulation by the Secretary of Housing and Urban Development (“HUD”) and the Director of the independent Office of Federal Housing Enterprise Oversight within HUD (“OFHEO”). Approval of the Secretary of Treasury is required for Fannie Mae’s issuance of its debt obligations and MBS. The President of the United States may appoint five members of Fannie Mae’s Board of Directors, and the other thirteen are elected by the holders of Fannie Mae’s common stock. Since May 25, 2004, the date of Fannie Mae’s most recent annual shareholder’s meeting, the President has declined to exercise his authority to appoint directors, and those five Board positions will remain open unless and until the President names new appointees

The securities of Fannie Mae are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof other than Fannie Mae.

Information on Fannie Mae and its financial condition is contained in periodic reports that are filed with the Securities and Exchange Commission (the “SEC”). The SEC filings are available at the SEC’s website at www.sec.gov. The periodic reports filed by Fannie Mae with the SEC are also available on Fannie Mae’s web site at <http://www.fanniemae.com/ir/sec> or from Fannie Mae at the Office of Investor Relations at 202-752-7115.

Fannie Mae’s safety and soundness regulator, OFHEO, announced in July 2003 that it was conducting a special examination of Fannie Mae’s accounting policies and practices, and in September 2004 issued a preliminary report of its findings to date. OFHEO subsequently identified additional accounting and internal control issues in February 2005, and issued its Report of the Special Examination of Fannie Mae (the “OFHEO Report”) on May 23, 2006.

On December 22, 2004, Fannie Mae reported that the Audit Committee of Fannie Mae’s Board of Directors (the “Board”) had determined that Fannie Mae’s previously filed interim and audited financial statements and the independent auditor’s reports thereon for the period from January 2001 through the second quarter of 2004 should no longer be relied upon because such financial statements were prepared using accounting principles that did not comply with U.S. generally accepted accounting principles (“GAAP”). Fannie Mae subsequently initiated an extensive restatement and re-audit of its financial statements with Fannie Mae’s new independent auditor, Deloitte & Touche LLP. Fannie Mae anticipates that the impact of the restatement will be material to Fannie Mae’s financial statements for many, if not all, of the periods involved.

The Board and Fannie Mae’s management have initiated numerous internal and external reviews of Fannie Mae’s accounting processes and controls, Fannie Mae’s financial reporting processes, and Fannie Mae’s application of GAAP. One of these external investigations was conducted by the law firm of Paul, Weiss, Rifkind, Wharton & Garrison LLP (“Paul Weiss”), under the direction of former U.S. Senator Warren Rudman. On February 23, 2006, the Paul Weiss report to the Special Committee of the Board was publicly released, and included numerous findings about Fannie Mae’s accounting policies, practices and systems, compensation practices, corporate governance, and internal controls. On February 24, 2006, Fannie Mae filed a Form 8-K with the SEC that includes the Paul Weiss report.

The OFHEO Report presents OFHEO’s findings about Fannie Mae’s corporate culture, executive compensation programs, accounting policies and internal controls, internal and external auditors, senior management, and the Board. In conjunction with the release of the OFHEO Report, Fannie Mae entered into settlement agreements with both OFHEO and the SEC on May 23, 2006. The settlement agreements require Fannie Mae to pay civil penalties totaling \$400 million. In addition, the settlement agreement

with OFHEO requires Fannie Mae to undertake certain remedial actions within a specified time frame to address the recommendations contained in the OFHEO Report, including an undertaking by Fannie Mae not to increase its "mortgage portfolio" assets except as permitted by a plan to be submitted by Fannie Mae for approval by OFHEO. The settlement agreements constitute comprehensive settlements between Fannie Mae and both OFHEO and the SEC relating to the activities of Fannie Mae during the time period in question. Please refer to Fannie Mae's Form 8-K filed with the SEC on May 30, 2006 for further information about the OFHEO Report and the settlement agreements. A complete copy of the OFHEO Report is available on OFHEO's website at www.ofheo.gov.

On July 20, 2006, the Federal Reserve Board implemented revisions to its payment systems risk policy requiring all government sponsored enterprises, including Fannie Mae, to fully fund their accounts with the Federal Reserve Banks before making payments to debt and mortgage-backed securities investors. Fannie Mae complied with this policy by entering into various funding agreements with market participants. In connection with this policy change, Fannie Mae also entered into a new fiscal agency agreement with the Federal Reserve Bank of New York.

On August 24, 2006, Fannie Mae announced that it had been advised by the United States Attorney's Office for the District of Columbia that it was discontinuing its investigation of Fannie Mae's accounting policies and practices, and did not plan to file charges against Fannie Mae. Please refer to Fannie Mae's Form 8-K filed with the SEC on August 24, 2006 for further information.

Fannie Mae has not filed Quarterly Reports on Form 10-Q for the third quarter of 2004, the first, second and third quarters of 2005 or for the first and second quarters of 2006, nor has Fannie Mae filed its Annual Report on Form 10-K for the years ended December 31, 2004 or December 31, 2005. As Fannie Mae most recently reported in a Current Report on Form 8-K filed with the SEC on August 9, 2006, Fannie Mae currently estimates that it will complete its financial restatement and file its Annual Report on Form 10-K for the year ended December 31, 2004 by the end of 2006.

Form 8-K's that Fannie Mae files with the SEC on or prior to the date of this Official Statement are incorporated herein by reference.

Fannie Mae makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility of performance of any project, or compliance with any securities, tax or other laws or regulations. Fannie Mae's role with respect to the Bonds is limited to issuing and discharging its obligations under the Credit Facility and exercising the rights reserved to it in the Indenture and the Reimbursement Agreement.

THE ISSUER

General

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

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

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

Organization and Membership

Governing Board

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

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

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

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

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

VIDAL GONZALEZ, Board Member. Banker, San Antonio, Texas. His term expired January 31, 2005.

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

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

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

Administrative Personnel

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

Currently, the Issuer has 270 employees. The following is a biographical summary of certain of the Issuer's senior staff members who have responsibility with respect to multi-family housing matters:

MICHAEL GERBER, Executive Director. On April 13, 2006, the TDHCA Board selected a new Executive Director, Michael G. Gerber. Mr. Gerber began service at the Department on May 17, 2006, with the approval of the Governor. Before joining the Department, Mr. Gerber served as an Advisor to Texas Governor Rick Perry in the Governor's Office of Budget, Planning, and Policy since October 2004. From January 2003-October 2004, Mr. Gerber served in the Bush Administration at the U.S. Department of Housing and Urban Development, first as a Senior Advisor to the Assistant Secretary for Public and Indian Housing, and later as a Senior Advisor to the Assistant Secretary for Policy Development and Research. Mr. Gerber served as a Legislative Assistant to U.S. Senator Kay Bailey Hutchison from 1997-2001, and as a Special Assistant for State Projects to U.S. Senator Phil Gramm from 1990-1997. Mr. Gerber received his undergraduate degree from George Washington University and an MBA from Marymount University.

BROOKE BOSTON, Acting Deputy Executive Director. Ms. Boston joined the Issuer in June of 2000 as a Low Income Housing Tax Credit Planner in the Multifamily Program Division and was subsequently named the Co-Manager of the LIHTC Program. She assumed her current position on March 1, 2006. In that capacity, she oversees TDHCA divisions including Single Family Finance Product, Multifamily Finance Production, the Office of Colonia Initiatives and the Community Affairs Division. Prior to this position, Mr. Boston had been the Director of Multifamily Finance Production since January 2003 and her oversight included Mortgage Revenue Bonds, Low Income Housing Tax Credit, preservation funds, the Housing Trust Fund and HOME funds. Prior to joining the Issuer, Ms Boston had been in the housing industry doing consulting on affordable housing development. Ms. Boston has a Master of Science in Planning from Florida State University, Tallahassee, Florida.

WILLIAM DALLY, Chief of Agency Administration. Immediately prior to serving as Chief of Agency Administration, Mr. Dally served as Acting Executive Director from February 21, 2006 until

May 15, 2006. 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 presently responsible for the Department's management of fiscal affairs, including budgets and financial reporting. Mr. Dallas also previously served in his now current position of Chief of Agency Administration. 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.

ROBBYE MEYER, Acting Director of Multifamily Finance Production. Ms. Meyer joined the Issuer in May 2001 as the Multifamily Bond Specialist in the Multifamily Bond Program Division. She was reclassified as the Multifamily Bond Administrator when the Issuer was reorganized in 2003. Mr. Meyer was named Manager of Multifamily Finance Production in April of 2005 and subsequently assumed the current position April 1, 2006. As Acting Director, she is responsible for the application, review, allocation, award, and closing on all multifamily funding sources and the Issuer including Multifamily Revenue Bonds, Low Income Housing Tax Credit, preservation funds, the Housing Trust Fund, and HOME funds.

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

KEVIN HAMBY, General Counsel and Secretary to the Board. Kevin Hamby was named General Counsel of the Department and became Secretary to the Board on September 1, 2005. In his role of Board Secretary, Mr. Hamby coordinates the recording of transcripts and minutes of Board actions as required by the Act. As General Counsel, Mr. Hamby is responsible for coordination of all internal and external legal counsel for the Department. Previously, he was with the Office of the Attorney General of Texas in the Administrative Law Division. After graduating from Catholic University of America, Columbus School of Law, Mr. Hamby joined the Dallas office of Fulbright & Jaworski, L.L.P. where he was involved in the Public Finance and Commercial Litigation Sections. After leaving the law firm, Mr. Hamby served as General Counsel to several organizations while in private practice. Mr. Hamby received his undergraduate degree in government from the University of Texas.

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

THE BONDS, TOGETHER WITH INTEREST THEREON, ARE SPECIAL AND LIMITED OBLIGATIONS SOLELY OF THE ISSUER PAYABLE FROM THE REVENUES, RECEIPTS AND SECURITY PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE UNITED STATES OF AMERICA, THE STATE, THE ISSUER, NOR ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC OF THE STATE OR ANY AGENCY OF THE UNITED STATES OF AMERICA OR ANY ISSUER THEREOF, WILL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER OF THE ISSUER, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS WILL BE CONSTRUED TO CONSTITUTE AN

INDEBTEDNESS OF THE UNITED STATES OF AMERICA, THE STATE, THE ISSUER, OR ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC OF THE STATE, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE BONDS ARE NOT AN OBLIGATION, DEBT OR LIABILITY OF THE STATE, AND DO NOT CREATE OR CONSTITUTE A PLEDGE, GIVING OR LENDING OF THE FAITH, CREDIT, OR TAXING POWER OF THE STATE.

Other Indebtedness of the Issuer

Single Family Mortgage Revenue Bonds. Since 1979, the year of creation of the Agency, through June 30, 2006, there have been issued by the Agency or the Issuer, 27 series of Residential Mortgage Revenue Bonds, two series of GNMA Collateralized Home Mortgage Revenue Bonds, 46 series of Single Family Mortgage Revenue Bonds, four series of Junior Lien Single Family Mortgage Revenue Bonds, 11 series of Collateralized Home Mortgage Revenue Bonds, and 10 series of Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds). As of June 30, 2006, the aggregate outstanding principal amount of bonded indebtedness of the Issuer for single family purposes was \$1,215,290,000.

Multifamily Housing Revenue Bonds. The Issuer and the Agency, through June 30, 2006, have issued 185 series of multifamily housing revenue bonds which have been issued pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of June 30, 2006, 132 series were outstanding with an aggregate outstanding principal amount of \$1,085,280,297 of multifamily housing revenue bonds.

THE BORROWER, THE DEVELOPMENT AND THE MANAGER

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

The Borrower and its partners will not be personally liable for payments on the Loan, the payments on which are to be applied to pay the principal of, premium, if any, and interest on, or, if applicable, the purchase price of, the Bonds. Accordingly, the financial statements of the Borrower and its partners are not included in the Official Statement. No representation is made that the Borrower will have substantial funds available to satisfy its obligations under the Loan Documents.

The Borrower

South Creek Housing, Ltd. (the "Borrower") is a limited partnership formed in Texas for the sole purpose of owning the Project. The sole general partner of the Borrower is WCS Housing, LLC, a Texas limited liability company whose managing member is TWC Housing, LLC, a Texas limited liability company, whose sole member is Hunt ELP, Ltd., a Texas limited partnership, whose general partner is HB GP, LLC, a Nevada limited liability company. These entities are affiliates and subsidiaries of Hunt Building.

The Development

The Development is a 168-unit multifamily residential apartment project consisting of approximately 148,000 net rentable square feet known as the Red Hills Villas Apartments located at 1401 South A.W. Grimes Boulevard, Round Rock, Texas.

The Development is situated on an irregular shaped parcel of land comprised of approximately 8.98 acres. The Development was built in 2002 and contains 168 units consisting of thirty-six (36) one bedroom; eighty three (83) two bedroom; and forty-nine (49) three bedroom units contained in six three-story garden style buildings. The Development contains a leasing office and fitness center. Development amenities include a pool and spa, clubhouse, business center, BBQ grills and picnic areas, laundry facilities, playground, access gates and covered parking. Unit amenities include ceiling fans, mini/vertical blinds, patios/balconies with some Units containing built-in bookcases. Each unit has padded carpet throughout except for the bathrooms and kitchens, which have vinyl tile flooring. Kitchens have Formica counters and wood tone cabinets, while bathrooms consist of plastic laminate vanities, wood tone cabinets, ceramic coated steel tub/showers with ceramic tile surrounds and porcelain sinks. All Units include frost free refrigerators, icemakers, dishwashers, garbage disposals, double stainless steel sinks, ovens & ranges with vent hoods. Each Unit has full size washer and dryer connections. The Development contains a total of 381 parking spaces, of which 89 are covered.

The Development is subject to the Regulatory Agreement, which imposes certain requirements on the Borrower with respect to the tax exempt status of the Bonds under the Code, which include, among other requirements, a set aside of all of the units in the Development for rental to persons or families having incomes at or below 60% of area median gross income (“Lower Income Tenants”), adjusted for family size and determined in accordance with Section 142(d) of the Code, and certain other requirements under state law. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.”

The Development is operated as a qualified low-income housing project, as defined in Section 42 of the Code, and as a “qualified residential rental project” within the meaning of Section 142(d) of the Code. As such, the Development is eligible to receive Tax Credits provided that a minimum of all of the total units are occupied by individuals and families with incomes of 60% or less of Median Gross Income for the Area determined in a manner consistent with determinations of area median gross income under Section 8 of the Housing Act (or, if such program is terminated, under such program as in effect immediately before such termination), as adjusted for family size (the “minimum set-aside test”). This requirement must be met in order for any portion of the Development to be eligible for the Tax Credits, as well as to maintain the tax-exempt status of the interest on the Bonds. Additionally, in order to qualify for such Tax Credits, the gross rents charged to tenants of qualified low-income units comprising the minimum set-aside cannot exceed certain set-aside maximums based on the unit size (the “rent restriction tests”). The Tax Credits to be generated by the Development will inure primarily to the benefit of a limited partner of the Borrower. In general, the affordability requirements under the Regulatory Agreement are similar to those contained in Section 42 of the Code governing the use of Tax Credits. The Borrower has elected to set aside 100% of the total units in the Development for individuals and families with incomes of 60% or less of area median.

The Manager

The management agent for the Development is Capstone Real Estate Services, Inc. (“Capstone”). Capstone is a full-service, third-party management firm presently managing over 50,000 multi-family units and 1,000,000 square feet of commercial space. Founded in 1969, Capstone employs over 1,200 people in the field of property management, and their portfolio extends to nearly 110 cities. The portfolio size ranks them amongst the largest third-party management firms in the nation. Capstone has been with the Development since construction in 2002.

Income and Affordability Restrictions

Code and State Law Restrictions. The Regulatory Agreement imposes certain requirements on the Development with respect to the tax-exempt status of the Bonds under the Code and certain other State law requirements which include, among other requirements, a set aside of all of the units for rental to persons or families having incomes at or below 60% of the Median Gross Income for the Area, adjusted for family size and determined in accordance with Section 142(d) of the Code. The Regulatory Agreement also requires all units be rented to “Eligible Tenants” defined in the Regulatory Agreement as persons or families whose annual gross income does not exceed 140% of area median. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT” for a description of the requirements affecting the operation of the Development in order to assure compliance with the Code, State law and to meet the Issuer’s requirements.

THE NOTE

The following is a summary of certain provisions of the Note, which is qualified in its entirety by reference to the Note, a copy of which may be obtained from the Trustee.

The Loan will be evidenced by the Note. The Note will be a nonrecourse obligation of the Borrower (subject to certain enumerated exceptions to nonrecourse liability provided in the Note) to repay the Loan and will be secured by the Security Instrument. The Note will be due and payable in 360 consecutive monthly installments of principal and interest (computed at the Note Rate then in effect on the outstanding principal amount of the Note), provided that any remaining indebtedness, if not sooner paid, will be due and payable on September 15, 2036. The Note is subject to optional and mandatory prepayment at the times, in the manner and on the terms set forth therein.

Primary Payment Obligation

The primary obligation of the Borrower under the Note is to pay principal of, premium, if any, and interest on the Note at the times and in the amounts necessary to pay all principal of, premium, if any, and interest on the Bonds as they become due, whether at maturity, by acceleration, by optional, mandatory or mandatory sinking fund redemption or otherwise. The Borrower is to make its payments under the Note in Available Moneys if and to the extent that the Indenture, the Financing Agreement or the Note requires any such amount to be available to the Trustee in Available Moneys. In the event of any deficiency in the funds available under the Indenture for payment of the principal and purchase price of, premium, if any, or interest on the Bonds when due, the Borrower is to immediately pay the amount of the deficiency to the Trustee upon notice of the deficiency from the Issuer, the Loan Servicer or the Trustee. The Borrower is obligated to pay the deficiency regardless of the reason for the deficiency, including any deficiency resulting from any shortfall in payments made or to be made by the Borrower under the Note, any loss due to a default under any Investment, a change in value of any Investment or otherwise.

Note Interest

Except as provided in the Note, until converted to a Reset Rate or a Fixed Rate, interest will accrue on the unpaid principal of the Note at a Weekly Variable Rate (“Note Rate”) the interest on which is subject to weekly adjustments while the Bonds bear interest at a Weekly Variable Rate and as necessary to take into account any change in the interest rate on the Bonds due to the conversion of the interest rate mode on the Bonds pursuant to the Indenture. Any change in the rate of interest on the Note due to a change in the interest rate mode of the Bonds will be effective as of the date of such conversion.

Acceleration

If an Event of Default under the Security Instrument has occurred and is continuing, the entire unpaid principal balance, all accrued interest, the prepayment premium payable under the Note, if any, and all other amounts payable under the Note or under any other Loan Document will at once become due and payable, at the option of the Issuer, without any prior notice to the Borrower. The Issuer may exercise this option to accelerate regardless of any prior forbearance.

THE LOAN SERVICER

The following information is provided by the Loan Servicer (as defined below). The Underwriter and the Issuer make no representation or warranty or take any responsibility for the accuracy or completeness of such information.

CharterMac Mortgage Capital Corporation, a Delaware corporation (the "Loan Servicer") will perform mortgage servicing functions with respect to the Loan on behalf of and in accordance with Fannie Mae requirements. The servicing arrangements between Fannie Mae and the Loan Servicer for the servicing of the Loan are solely between Fannie Mae and the Loan Servicer and neither the Issuer nor the Trustee is deemed to be party thereto or has any claim, right, obligation, duty or liability with respect to the servicing of the Loan.

The Loan Servicer will be obligated, pursuant to its arrangement with Fannie Mae and Fannie Mae's servicing requirements, to perform diligently all services and duties specifically prescribed by Fannie Mae. Fannie Mae has the right to remove the Loan Servicer with or without cause. The duties performed by the Loan Servicer include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts and collection of insurance claim proceeds.

The selection (or replacement) of the Loan Servicer is in the sole and absolute discretion of Fannie Mae. The servicing arrangements between the Loan Servicer and Fannie Mae are subject to amendment or termination from time to time without the consent of the Issuer, the Trustee or the Borrower, and none of the Trustee, the Issuer or the Borrower has any rights under, and none is a third-party beneficiary of, the servicing arrangements between the Loan Servicer and Fannie Mae.

The Loan Servicer is an approved DUS seller/loan servicer under Fannie Mae's Delegated Underwriting and Servicing product line.

The Loan Servicer makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility of performance of the Development or compliance with any securities, tax or other laws or regulations. The Loan Servicer's role is limited to underwriting and servicing the Loan for Fannie Mae.

TAX MATTERS

In the opinion of Bond Counsel, assuming compliance with certain covenants and based on certain representations, interest on the Bonds prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required under the Indenture is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Bond during any period while it is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code. The Bonds are "private activity bonds" under the Code and, therefore, interest on the 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. A copy of the Opinion of Bond Counsel is set forth in Appendix F hereto.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Indenture, Financing Agreement and Regulatory Agreement pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer, the Borrower and the Underwriter with respect to matters solely within the knowledge of the Issuer, the Borrower and the Underwriter, respectively, which Bond Counsel has not independently verified. Bond Counsel's opinion also assumes the Issuer's and Borrower's past compliance with the terms of certain documents executed in connection with the issuance of the Prior Bonds, designed to preserve the exemption of interest on the Prior Bonds from gross income for federal income tax purposes (the "Prior Bond Documents"). If the Issuer or the Borrower should fail to comply with the covenants in the Indenture, Financing Agreement and Regulatory Agreement or if the Borrower or the Issuer have failed to comply with the above-noted provisions of the Prior Bond Documents or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of original delivery of the Bonds, regardless of the date on which the event causing such includability occurs.

In the case of bonds used to provide residential rental housing, such as the Bonds, Section 142 of the Code requires that such bonds also satisfy the tenant eligibility requirements applicable to "qualified residential rental projects" under Section 142(d) of the Code. Section 142(d) of the Code requires that at all times during the Qualified Project Period a certain percentage of the units in the Project are to be occupied by individuals with income below certain levels as provided in Section 142(d) of the Code. The "Qualified Project Period" for the Project commenced on the initial date of 10% occupancy of the Development and will end on the latest of the following: (1) the date that is 15 years after the date on which 50% of the units in the Development were first occupied (September 29, 2002); (2) the date on which no tax-exempt private activity bond (as defined in Section 141 of the Code) remains outstanding; or (3) the date on which any assistance provided with respect to each such project under Section 8 of the United States Housing Act of 1937, as amended, terminates. The United States Department of Treasury issued regulations (the "Regulations") setting forth requirements for compliance with a comparable provision of the predecessor of Section 142 of the Code. The Regulations require, among other things, that (1) the low-income set aside requirement of this predecessor provision must be met on a continuous basis during the Qualified Project Period, and (2) all of the units in the Project must be rented or available for rental to the general public on a continuous basis during the Qualified Project Period. Under the Regulations, the failure to satisfy the foregoing requirements on a continuous basis or the failure to satisfy any of the other requirements of the Regulations will, unless corrected within a reasonable period of not more than 60 days after such noncompliance is first discovered or would have been discovered by the exercise of reasonable diligence, cause interest on the Bonds to be includable in gross income for federal income tax purposes as of the date of their original issue, irrespective of the date such noncompliance actually occurred.

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

The Code imposes an alternative minimum tax on the “alternative minimum taxable income” of an individual if the amount of such alternative minimum tax is greater than the amount of such individual’s regular income tax. Generally, the alternative minimum tax rate for individuals is 26% 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,” such as the Bonds, issued after August 7, 1986. Accordingly, Bond Counsel’s opinion will state that interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations and the environmental tax imposed on corporations.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. As described above under “THE BONDS – Adjustment of the Interest Rate on the Bonds,” certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, Bond Counsel’s opinions will express no opinion regarding the excludability of interest on the Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, Bond Counsel will express no opinion on its ability to render the opinion required in connection with such changes.

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

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

income credit. In addition, certain foreign corporations doing business in the United States may be subject to the new "branch profit tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the 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 its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

LITIGATION

The Issuer

It is a condition precedent to the Underwriter's obligation to purchase the Bonds on the Closing Date that the Issuer deliver a certificate to the effect that there is not now pending (as to which the Issuer has received service of process) or, to the actual knowledge of the Issuer, threatened any litigation against the Issuer restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings or authority under which the Bonds are to be issued, neither the creation, organization or existence of the Issuer nor the title of any of the present members or other officers of the Issuer to their respective offices is being contested, and there is no litigation against the Issuer pending (as to which the Issuer has received service of process) or, to the actual knowledge of the Issuer, threatened that in any manner questions the right of the Issuer to enter into the Indenture, the Financing Agreement or the Bond Purchase Agreement or to secure the Bonds in the manner provided in the Indenture and the Act.

The Borrower

It is a condition precedent to the Underwriter's obligation to purchase the Bonds on the Closing Date, that the Borrower deliver a certificate to the effect that there is not now pending or, to the knowledge of the Borrower, threatened any proceeding or litigation against the Borrower affecting the ability of the Borrower to enter into or deliver the Financing Agreement, the Loan Documents, the Credit

Facility Documents or the Regulatory Agreement, seeking to restrain or enjoin any of the Borrower's execution and delivery of the agreements described in this Official Statement, or contesting the existence or powers of the Borrower with respect to the transactions described in this Official Statement.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the Issuer and the Owners of the Bonds upon an event of default under the Financing Agreement, the Regulatory Agreement or the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, including specifically the Federal Bankruptcy Code (Title 11 of the United States Code), the remedies provided for under the Federal Bankruptcy Code, the Financing Agreement, the Regulatory Agreement or the Indenture may not be readily available or may be limited.

In addition, the Financing Agreement and the Regulatory Agreement both provide that the payment obligations of the Borrower contained in such agreements (other than certain obligations to the Issuer and the Trustee individually and not on behalf of the Owners of the Bonds) will be limited obligations payable solely from the income and assets of the Borrower and that no general partner of the Borrower will have any personal liability for the satisfaction of any obligation of the Borrower under such agreements or of any claim against the Borrower arising out of such agreements or the Indenture.

The various legal opinions to be delivered in connection with the delivery of the Bonds, the Indenture, the Financing Agreement, the Regulatory Agreement and the Security Instrument will be qualified to the extent that the enforceability of certain legal rights related to the Bonds, the Indenture, the Financing Agreement and the Regulatory Agreement is subject to limitations imposed by such things as the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity), including judicial limitations on rights to specific performance and bankruptcy, insolvency and reorganization. The Issuer and the Borrower have consented to the distribution of this Official Statement by the Underwriter to prospective purchasers of the Bonds, and this Official Statement has been approved by the Borrower (as to the portions thereof relating to the Borrower and the Development, including restrictions thereon) for distribution by the Underwriter to prospective purchasers of the Bonds.

NO CONTINUING DISCLOSURE

So long as the Bonds bear interest at the Weekly Variable Rate or do not otherwise become subject to the Rule (as defined below), the Bonds are exempt from continuing disclosure pursuant to Rule 15c2-12 promulgated and amended by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"). In the event of conversion of the Bonds to a Reset Rate, conversion to the Fixed Rate, or the Bonds otherwise becoming subject to the Rule, the Borrower has agreed to execute and deliver to the Trustee a continuing disclosure agreement upon the date of such conversion.

The Borrower will undertake all responsibility for any future continuing disclosure to Bond holders, and the Issuer will have no liability to the holders of the Bonds or any other person with respect to such disclosure. Failure of the Borrower to comply with any continuing disclosure agreement is not considered an Event of Default under the Indenture or the Financing Agreement; however, the Trustee, at the written request of any underwriter of the Bonds (if the underwriter is required to comply with the Rule) or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds or the Credit Provider, shall, but only to the extent funds or other indemnity in an amount satisfactory to the Trustee is furnished to it to hold the Trustee harmless from any loss, cost, expense or liability, including, without limitation, fees and expenses of its attorneys and additional fees of the Trustee, but only to the extent indemnified to its satisfaction, or any Bond holder may take such actions as may be necessary and

appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under the Financing Agreement with respect to continuing disclosure.

RATINGS

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned ratings of "AAA/A-1+" to the Bonds. Such ratings express only the views of S&P. An explanation of the significance of the ratings may be obtained from S&P. The ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that such ratings will continue for any given period of time or will not be revised or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Neither the Issuer, the Underwriter, Fannie Mae, the Loan Servicer nor the Borrower has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed downward revision or withdrawal of a rating of the Bonds, or to oppose any such proposed downward revision or withdrawal. Any such downward revision in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Stern Brothers & Co. (the "Underwriter") has agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds pursuant to a Purchase Contract (the "Bond Purchase Agreement") among the Underwriter, the Issuer and the Borrower, at a price of 100% of the principal amount of the Bonds, plus accrued interest. The Bond Purchase Agreement provides that the Underwriter will receive an underwriting fee from the Borrower in the amount of \$61,265 from which the Underwriter will pay certain of its expenses.

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

REMARKETING

Stern Brothers & Co. will act as the Remarketing Agent under the Indenture and under a Remarketing Agreement dated as of September 1, 2006. The Remarketing Agent will offer for sale for the account of each Bond owner and use its best efforts to sell an aggregate principal amount of Bonds equal to the amount of Bonds tendered at the option of any Bond owner without selling any such Bonds at a discount or premium; provided, however, that the Remarketing Agent will not be obligated to remarket any Bonds (1) after the occurrence of an Event of Default which is a default in the payment of principal of, or interest on, the Bonds, (2) upon the occurrence and continuation of any other Event of Default under the Indenture which results in an acceleration of the Bonds pursuant to the Indenture, (3) if the Credit Facility or an Alternate Credit Facility providing both credit and liquidity support is not in full force and effect, (4) a Wrongful Dishonor has occurred and is continuing or (5) if the Fixed Rate Period has commenced. The Remarketing Agent will receive a fee in connection with these duties.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations under the Remarketing Agreement by giving at least 30 days' written notice to the Issuer, the Trustee, the Tender Agent, the Borrower, the Loan Servicer and the Credit Provider, provided, however, that the Remarketing Agent may not be discharged of its duties under the Remarketing Agreement unless a successor remarketing agent reasonably acceptable to the Issuer, the Borrower and Fannie Mae (as long as it is the Credit Provider) has been appointed by the Issuer and has succeeded to the duties of remarketing agent.

The Remarketing Agent may be removed at any time (1) by the Issuer, in consultation with Fannie Mae and the Borrower, (2) by the Borrower with the consent of the Issuer and Fannie Mae or (3) if (a) the Remarketing Agent has failed to fulfill its duties under the Remarketing Agreement or the Indenture or (b) the Borrower is in default under the Reimbursement Agreement, by Fannie Mae, upon at least 30 days' notice to the Remarketing Agent, the Trustee, the Borrower, the Loan Servicer, the Tender Agent and the Issuer. The Remarketing Agent will not be removed, unless a successor remarketing agent acceptable to the Issuer, the Borrower and Fannie Mae has been appointed.

CERTAIN LEGAL MATTERS

All legal matters related to the authorization, issuance, sale and delivery of the Bonds are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for Fannie Mae by its Legal Department and by its special counsel, O'Melveny & Myers LLP, Los Angeles, California; for the Borrower by Locke Liddell & Sapp LLP, Austin and Dallas, Texas; and for the Underwriter by Kutak Rock LLP, Omaha, Nebraska.

The legal fee of Kutak Rock LLP is contingent upon the issuance of the Bonds.

MISCELLANEOUS

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 Issuer and the purchasers or owners of any of the Bonds. The use of this Official Statement has been duly approved by the Issuer and the Borrower.

The use of this Official Statement has been approved by the Borrower.

South Creek Housing, Ltd.,
a Texas limited partnership

By: WCS Housing, LLC,
a Texas limited liability company,
its general partner

By: TWC Housing, LLC,
a Texas limited liability company,
its managing member

By: Hunt ELP, Ltd.,
a Texas limited partnership,
its sole member

By: HB GP, LLC,
a Nevada limited liability
company, its general partner

By: /s/ James C. Hunt
Name: James C. Hunt
Title: Executive Vice President

APPENDIX A

CERTAIN DEFINITIONS

The following summary of the definitions contained in the various documents entered into with respect to the Bonds is a summary only and does not purport to be a complete statement of the contents thereof. Reference is made to the full text of the documents herein described for the complete terms thereof.

“Account” means an account established within a Fund.

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

“Act of Bankruptcy” means any proceeding instituted under the Bankruptcy Code or other applicable insolvency law by or against the Issuer.

“Adjustment Date” means any date on which the interest rate on the Bonds is adjusted to a different Mode or to a different Reset Rate. An Adjustment Date may only occur on an Interest Payment Date or, if such date is not a Business Day, the following Business Day. Any Reset Date and the Fixed Rate Adjustment Date are Adjustment Dates.

“Advance” means an advance made under the Credit Facility.

“Affiliate” as applied to any person, means any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this definition, “control” (including with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, partnership interests or by contract or otherwise.

“Alternate Credit Facility” means a letter of credit (whether or not so named), surety bond, insurance policy, standby bond purchase agreement, credit enhancement instrument, collateral purchase agreement, mortgage backed security or similar agreement, instrument or facility (other than the initial Credit Facility) provided in accordance with the Financing Agreement. For purposes of this definition, “letter of credit” means an irrevocable letter of credit (i) having the characteristics of a “credit” or “letter of credit” set forth in Section 5-103 of the UCC except that a letter of credit (A) may not be revocable and (B) may be issued only by (1) a national bank, (2) any banking institution organized under the laws of any state, territory or the District of Columbia, the business of which is substantially confined to banking and is supervised by the state or territorial banking commission or similar officials or (3) a branch or agency of a foreign bank, provided that the nature and extent of federal and/or state regulation and the supervision of the particular branch or agency is substantially equivalent to that applicable to federal or state chartered domestic banks doing business in the same jurisdiction; and (ii) that meets the requirements of a Credit Facility under the Indenture.

“Alternate Credit Provider” means the provider of an Alternate Credit Facility.

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

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

“Asset Oversight Agent’s Fee” has the meaning given to such term in the Asset Oversight Agreement.

“Asset Oversight Agreement” means the Asset Oversight Agreement dated as of September 1, 2006, between the Borrower and Asset Oversight Agent.

“Assigned Rights” has the meaning given to that term in the Assignment.

“Assignment” means the Assignment and Intercreditor Agreement, dated as of the date of the Indenture, among the Issuer, the Trustee and the Fannie Mae, and acknowledged and agreed to by the Borrower, as it may be amended, supplemented or restated from time to time.

“Authorized Denomination” means during any Weekly Variable Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

“Available Moneys” means, as of any date of determination, any of (i) the proceeds of the Bonds; (ii) remarketing proceeds received from the Remarketing Agent or any purchaser of Bonds (other than funds provided by the Borrower, the Issuer, any Affiliate of either the Borrower or the Issuer or any guarantor of the Loan); (iii) moneys received by the Trustee pursuant to a draw on the Credit Facility; (iv) any other amounts, including the proceeds of refunding bonds, for which, in each case, the Trustee has received an Opinion of Counsel acceptable to the Rating Agency to the effect that the use of such amounts to make payments on the Bonds would not violate Section 362(a) of the Bankruptcy Code (or that relief from the automatic stay provisions of such Section 362(a) would be available from the bankruptcy court) or be avoidable as preferential payments under Section 544, 547 or 550 of the Bankruptcy Code should the Issuer or the Borrower become a debtor in proceedings commenced under the Bankruptcy Code; and (v) Investment Income derived from the investment of moneys described in clause (i), (ii), (iii) or (iv).

“Available Unit” means (a) a Unit that was occupied when the Development was acquired and (b) a Unit that was unoccupied when the Development was acquired but that has subsequently been leased at least once. Notwithstanding the preceding sentence, a Unit that is not available for occupancy due to renovations is not an Available Unit until it has been leased for the first time after the renovations are completed.

“Bankruptcy Code” means Title 11 of the United States Code entitled “Bankruptcy,” as in effect now and in the future, or any successor statute.

“Beneficial Owner” means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

“Bond” or *“Bonds”* means the Issuer’s Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006 in the original aggregate principal amount of \$5,015,000.

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

“Bond Documents” means the Assignment, the Bonds, the Bond Purchase Agreement, the Credit Facility, the Financing Agreement, the Indenture, the Regulatory Agreement (and any other agreement relating to rental restrictions on the Development), the Remarketing Agreement, the Tax Certificate, any Tender Agent Agreement and all other documents, instruments and agreements executed and delivered in connection with the issuance, sale, delivery and/or remarketing of the Bonds, as each such agreement or instrument may be amended, supplemented or restated from time to time. Any Forward Commitment Deposit Fee Instrument (as that term is defined in the Reimbursement Agreement) is not a Bond Document.

“Bondholder,” “holder,” “Owner,” “owner,” “Registered Owner” or *“registered owner”* means, with respect to any Bond, the owner of the Bond as shown on the Bond Register.

“Bondholder Tender Notice” means a written notice meeting the requirements of the Indenture.

“Bond Payment Date” means any (a) Interest Payment Date, (b) other date on which interest is payable, including any Redemption Date, each Maturity Date and the date of acceleration of the Bonds, and (c) date on which principal of the Bonds is payable.

“Bond Proceeds Fund” means the Bond Proceeds Fund created pursuant to the Indenture.

“Bond Purchase Agreement” means the Purchase Contract, by and among the Underwriter, the Issuer and the Borrower.

“Bond Purchase Fund” means the Bond Purchase Fund created under the Indenture.

“Bond Register” means the Bond Register maintained by the Trustee pursuant to the Indenture.

“Bond Resolution” means the resolution adopted by the Issuer on August 30, 2006, authorizing and approving the issuance and sale of the Bonds and authorizing and approving the execution and delivery of the Indenture, the Financing Agreement, the Regulatory Agreement, the Bond Purchase Agreement, the Assignment, the acceptance of the Security Instrument and the acceptance and endorsement of the Note and certain other documents, making certain appointments and determining certain details with respect to the Bonds.

“Book-Entry Bonds” means that part of the Bonds for which a Securities Depository or its nominee is the Bondholder.

“Book-Entry System” means an electronic system in which the clearance and settlement of securities transactions is made through electronic book-entry changes.

“Borrower” means South Creek Housing, Ltd., a Texas limited partnership organized and existing under the laws of the State (together with its successors and assigns).

“Borrower Documents” means the Bond Documents to which the Borrower is a party, the Credit Facility Documents to which the Borrower is a party, and the Loan Documents and all other documents to which the Borrower is a party and which are being executed and delivered by the Borrower in connection with the transactions provided for in the Bond Documents, the Loan Documents and the Credit Facility Documents.

“Borrower’s Tax Certificate” means the Borrower’s Tax Certificate delivered to the Issuer by the Borrower on the Closing Date in which the Borrower certifies various facts relating to the Mortgage

Property which bear on the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

“Business Day” means any day other than (i) a Saturday or a Sunday, (ii) any day on which banking institutions located in the City of New York, New York are required or authorized by law or executive order to close, (iii) any day on which banking institutions located in the city or cities in which the Designated Office of the Trustee or the Loan Servicer is located are required or authorized by law or executive order to close, (iv) prior to the Fixed Rate Adjustment Date, a day on which the New York Stock Exchange is closed, or on which banking institutions located in the city in which the Remarketing Agent is located are required or authorized by law or executive order to close; or (v) so long as a Credit Facility is in effect, any day on which the Credit Provider is closed.

“Certificate of Borrower” means the Certificate of Borrower, dated the Closing Date, as it may be amended, supplemented or restated from time to time.

“Closing Date” means the date on which the Bonds are issued and delivered to the Bondholders.

“Code” means the Internal Revenue Code of 1986, as amended; each reference to the Code is deemed to include (i) any successor internal revenue law and (ii) the applicable regulations whether final, temporary or proposed under the Code or such successor law. Any reference to a particular provision of the Code is deemed to include any successor provision of any successor internal revenue law and applicable regulations whether final, temporary or proposed under such provision or successor provision.

“Conditional Redemption” means a redemption where the Trustee has stated in the notice of redemption that the redemption is conditioned upon deposit of funds as further described under “THE BONDS — Notice of Redemption.”

“Costs of Issuance” is defined in “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.”

“Costs of Issuance Deposit” means the deposit to be made by the Borrower with the Trustee on the Closing Date to pay Costs of Issuance.

“Costs of Issuance Fund” means the Costs of Issuance Fund created by the Indenture.

“Credit Facility” means the Direct Pay Irrevocable Transferable Credit Enhancement Instrument, dated the Closing Date, issued by Fannie Mae to the Trustee, or any Alternate Credit Facility in effect at the time, as any such facility may be amended, supplemented or restated from time to time.

“Credit Facility Account” means the Credit Facility Account of the Revenue Fund.

“Credit Facility Agreement” means, individually or collectively, the Reimbursement Agreement, the Pledge Agreement and all other agreements and documents securing the Credit Provider or otherwise relating to the provision of the Credit Facility, as any such agreement may be amended, modified, supplemented or restated from time to time.

“Credit Facility Documents” means the Reimbursement Agreement, the Certificate of Borrower, all Collateral Agreements (as that term is defined in the Security Instrument), the Hedge Documents, the Hedge Reserve Escrow Account Security Agreement, the Hedge Security Agreement, the Pledge Agreement and all other agreements and documents securing the Credit Provider or otherwise relating to the

provision of the Credit Facility, as any such agreement may be amended, supplemented or restated from time to time.

“*Credit Provider*” means, so long as the initial Credit Facility is in effect, Fannie Mae, or (iii) so long as any Alternate Credit Facility is in effect, the Alternate Credit Provider then obligated under the Alternate Credit Facility.

“*Designated Office*” of the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer means, respectively, the office of the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer at the respective address set forth in the Indenture or at such other address as may be specified in writing by the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer, as applicable, as provided in the Indenture.

“*Development*” means the Development Facilities and the Development Site as defined in the Regulatory Agreement.

“*DTC*” means The Depository Trust Company and any successor to it or any nominee of it.

“*DTC Participant*” has the meaning given to that term under “THE BONDS — Book-Entry Only System.”

“*DTC System*” means the DTC securities depository system.

“*Electronic Means*” means a facsimile transmission or any other electronic means of communication approved in writing by the Credit Provider.

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

“*Event of Default*” means, as used in any Transaction Document, any event described in that document as an Event of Default. Any “Event of Default” as described in any Transaction Document is not an “Event of Default” in any other Transaction Document unless that other Transaction Document specifically so provides.

“*Extension Date*” means, with respect to the initial Credit Facility, the date that is one Business Day prior to the Liquidity Expiration Date and, with respect to an Alternate Credit Facility, the date that is five Business Days prior to the expiration date of the Alternate Credit Facility.

“*Extraordinary Items*” means, with respect to the Trustee, reasonable compensation for extraordinary services and/or reimbursement for reasonable extraordinary costs and expenses including reasonable fees and expenses of its counsel.

“*Facility Fee*” has the meaning given to that term in the Reimbursement Agreement.

“*Fannie Mae*” means Fannie Mae, a corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C., § 1716 et seq., and its successors and assigns.

"Favorable Opinion of Bond Counsel" means, with respect to any action the taking of which requires such an opinion, an unqualified opinion of counsel, which will be from Bond Counsel, delivered to and in form and substance satisfactory to the Issuer and the Credit Provider to the effect that such action is permitted under the laws of the State (including the Act), the Code and the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion of Bond Counsel delivered upon original issuance of the Bonds).

"Fees Account" means the Fees Account of the Revenue Fund.

"Fees and Expenses" means the fees, advances, out-of-pocket expenses, costs and other charges payable by the Borrower from time to time pursuant to the Financing Agreement.

"Financing Agreement" means the Financing Agreement, dated as of September 1, 2006, by and among the Issuer, the Trustee and the Borrower, as amended, supplemented or restated from time to time.

"Fixed Rate" means the rate of interest borne by the Bonds as determined in accordance with the Indenture.

"Fixed Rate Adjustment Date" means the date on which the interest rate on the Bonds adjusts from the Weekly Variable Rate or a Reset Rate to the Fixed Rate pursuant to the Indenture.

"Fixed Rate Period" means the period beginning on the Fixed Rate Adjustment Date and ending on the earlier of the Maturity Date or the date the Bonds are redeemed in whole.

"Fund" means any fund created by the Indenture.

"Government Obligations" means direct obligations of, and obligations on which the full and timely payment of principal and interest is unconditionally guaranteed by, the full faith and credit of the United States of America.

"Hedge Documents" has the meaning given that term in the Hedge Security Agreement.

"Hedge Security Agreement" means that Hedge Security Agreement dated as of September 1, 2006 among the Borrower, the Loan Servicer and Fannie Mae.

"Highest Rating Category" has the meaning, with respect to an Investment, given in this definition. If the Bonds are rated by a Rating Agency, the term *"Highest Rating Category"* means, with respect to an Investment, that the Investment is rated by each Rating Agency in the highest rating given by that Rating Agency for that general category of security. If at any time the Bonds are not rated (and, consequently, there is no Rating Agency), then the term *"Highest Rating Category"* means, with respect to an Investment, that the Investment is rated by S&P or Moody's in the highest rating given by that rating agency for that general category of security. By way of example, the Highest Rating Category for tax-exempt municipal debt established by S&P is "A-1+" for debt with a term of three months or less and "AAA" for a term greater than one year, with corresponding ratings by Moody's of "MIG-1" (for fixed rate) or "VMIG-1" (for variable rate) for three months or less and "Aaa" for greater than three months. If at any time (i) the Bonds are not rated, (ii) both S&P and Moody's rate an Investment and (iii) one of those ratings is below the Highest Rating Category, then such Investment will, nevertheless, be deemed to be rated in the Highest Rating Category if the lower rating is no more than one rating category below the highest rating category of that rating agency. For example, an Investment rated "AAA" by S&P and "Aa3" by Moody's is rated in the Highest Rating Category. If, however, the lower rating is more than

one full rating category below the Highest Rating Category of that rating agency, then the Investment will be deemed to be rated below the Highest Rating Category. For example, an Investment rated "AAA" by S&P and "A1" by Moody's is not rated in the Highest Rating Category.

"Housing Act" means the United States Housing Act of 1937, as amended, or its successor.

"HUD" means the United States Department of Housing and Urban Development or its successors.

"Improvements" means the improvements made or to be made upon the Land.

"Income Certification" means a certification as to income and other matters executed by the household members of each tenant in the Development, in substantially the form attached to the Regulatory Agreement, or in such other form as may from time to time may be required by the Issuer in satisfaction of the criteria prescribed by the Secretary of HUD under Section 8(f)(3) of the Housing Act for purposes of determining whether a family is a lower-income family within the meaning of Section 8(f)(1) of the Housing Act and regulations and in accordance with the terms of the Regulatory Agreement.

"Indenture" means the Trust Indenture, between the Issuer and the Trustee, dated as of September 1, 2006, as amended, supplemented or restated from time to time.

"Interest Account" means the Interest Account of the Revenue Fund.

"Interest Payment Date" means during a Weekly Variable Rate Period, the fifteenth day of each month, commencing October 15, 2006, each Redemption Date, each Maturity Date and the date of payment upon an acceleration of the Bonds.

"Interest Requirement" means during the Weekly Variable Rate Period, 34 days interest on the Bonds at the Maximum Rate on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed; or such other number of days as may be required by the Rating Agency.

"Investment" means any Permitted Investment and any other investment held under the Indenture that does not constitute a Permitted Investment.

"Investment Agreement" means any investment agreement with respect to amounts on deposit in any Fund or Account, as described in paragraph (vii) of the definition of Permitted Investments.

"Investment Income" means the earnings, profits and accreted value derived from the investment of moneys pursuant to the Indenture.

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

"Issuer Administration Fee" means the fee payable annually in arrears to the Issuer on each September 1 in the amount of .10% per annum of the aggregate principal amount of Bonds Outstanding at the inception of each payment period; provided that, on the Closing Date, the Borrower will pay the Issuer Administration Fee to the Issuer for the period from the Closing Date to August 31, 2008; and provided further that the Trustee will remit to the Issuer, from funds provided by the Borrower, all payments of the Issuer Administration Fee due on or after September 1, 2008.

“Issuer Compliance Fee” means the fee payable annually in advance to the Issuer on each September 1, commencing September 1, 2007, in the amount of \$40 per unit in the Development per year (to be increased annually based on any corresponding increase in the Consumer Price Index); provided that, on the Closing Date, the Borrower will pay the Issuer Compliance Fee to the Issuer for the period from September 1, 2007 to August 31, 2008; and provided further that the Trustee will remit to the Issuer, from funds provided by the Borrower, all payments of the Issuer Compliance Fee due on or after September 1, 2008.

“Issuer Documents” means the Assignment, the Bonds, the Financing Agreement, the Indenture, the Loan Documents to which the Issuer is a party, the Regulatory Agreement and the No-Arbitrage Certificate.

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

“Land” means the real property described in the Security Instrument.

“Letter of Representations” means when all the Bonds are Book-Entry Bonds, the Letter of Representations executed by the Issuer and the Trustee and delivered to the Securities Depository, as amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

“Liquidity Advance” means an Advance to pay principal of, plus accrued interest on, any Bonds subject to an Optional Tender.

“Liquidity Commitment” means the obligation of Fannie Mae to honor from time to time a request of the Trustee under the Credit Facility to make a Liquidity Advance (as that term is defined in the Credit Facility). The Liquidity Commitment will automatically expire on the Liquidity Expiration Date.

“Loan” means the loan made by the Issuer to the Borrower pursuant to the Financing Agreement for the purpose of providing funds to the Borrower to repay the prior loan and cause the refunding of the Prior Bonds.

“Loan Documents” means, collectively, the Note, the Security Instrument and all other documents, agreements and instruments evidencing, securing or otherwise relating to the Loan, as each such document, agreement or instrument may be amended, supplemented or restated from time to time. Neither the Financing Agreement nor the Regulatory Agreement is a Loan Document and neither document is secured by the Security Instrument.

“Liquidity Expiration Date” has the meaning given that term in the Credit Facility, subject to certain provisions of the Credit Facility. The Liquidity Expiration Date may be extended from time to time in accordance with the Reimbursement Agreement.

“Loan Fund” means the Loan Fund created by the Indenture.

“Loan Servicer” means initially, CharterMac Mortgage Capital Corporation, a Delaware corporation, or the multifamily Loan servicer designated from time to time by the Credit Provider.

“Low-Income Tenant” means a tenant whose Annual Income does not exceed 60% of the Median Gross Income for the Area, as determined under Section 142(d)(2)(B) of the Code. If all the occupants of a Unit are students (as defined under Section 151(c) of the Code), no one of whom is entitled to file a joint return under Section 6013 of the Code, such occupants shall not qualify as Low-Income Tenants.

The determination of a tenant's status as a Low-Income Tenant shall be made by the Borrower upon initial occupancy of a Unit in the Development by such tenant, and annually thereafter, on the basis of a Tenant Income Certification executed by each tenant; provided, however that once a tenant qualifies as a Low-Income Tenant, such tenant shall continue to qualify annually upon recertification except as provided in the Regulatory Agreement.

"Mandatory Tender" means a tender of Bonds required by the terms of the Indenture including tenders required because of (i) a change in Mode, (ii) with respect to the initial Credit Facility, the expiration of the Liquidity Commitment, (iii) with respect to an Alternate Credit Facility, the expiration of the Alternate Credit Facility, (iv) the substitution of a new Credit Facility for the Credit Facility then in effect and (v) the receipt by the Trustee of written notice from the Credit Provider stating that an Event of Default under the Reimbursement Agreement has occurred and directing that the Bonds be subject to mandatory tender.

"Mandatory Tender Advance" means an Advance to pay principal of, plus accrued interest on, any Bonds (other than Excluded Bonds, as defined in the Indenture) due as a result of a Mandatory Tender.

"Mandatory Tender Date" means any date on which Bonds are required to be tendered pursuant to the Indenture, including any Adjustment Date, Extension Date (unless the Trustee receives an extension of, as the case may be, the Liquidity Expiration Date or an Alternate Credit Facility prior to the Extension Date in which case such Extension Date will not be a Mandatory Tender Date), any Substitution Date or date specified by the Trustee as provided in the Indenture.

"Maturity Date" means September 15, 2036, or in the event the Bonds are adjusted to the Fixed Rate Mode and a Sinking Fund Schedule is established, the stated maturity date of any Bonds.

"Maximum Rate" means 12% per annum; provided, however, that the Maximum Rate may be increased if the Trustee receives (i) the written consent of the Credit Provider and the Borrower to a specified higher Maximum Rate not to exceed the lesser of (A) the maximum rate permitted by law to be paid on the Bonds (prescribed by Chapter 1204, Texas Government Code, or any successor provision) and (B) the maximum rate chargeable on the Loan, (ii) a Favorable Opinion of Bond Counsel, and (iii) a new or amended Credit Facility in an amount equal to the sum of (A) the then outstanding principal amount of the Bonds and (B) the new Interest Requirement calculated using the new Maximum Rate.

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

"Mode" means any of the Weekly Variable Rate, the Reset Rate and the Fixed Rate.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns, or if it is dissolved or no longer assigns credit ratings, then any other nationally recognized statistical rating agency, designated by the Credit Provider, as assigns credit ratings.

"Mortgaged Property" means the real property described in the Security Instrument, together with all improvements, fixtures and personal property (to the extent of the Borrower's interest therein) located on such real property.

“*Net Bond Proceeds*” means the total proceeds derived from the issuance, sale and delivery of the Bonds, representing the total purchase price of the Bonds, including any premium paid as part of the purchase price of the Bonds, but excluding the accrued interest, if any, on the Bonds paid by the initial purchaser(s) of the Bonds.

“*Net Bond Proceeds Account*” means the Net Bond Proceeds Account of the Costs of Issuance Fund.

“*No-Arbitrage Certificate*” means the No-Arbitrage Certificate, dated the date of issuance of the Bonds relating to certain federal income tax matters in respect of the Bonds.

“*Note*” means the Multifamily Note executed by the Borrower in favor of the Issuer and endorsed by the Issuer to the Credit Provider and the Trustee, as their interests may appear, as it may be amended, supplemented or restated from time to time or any Note executed in substitution therefor in accordance with the Bond Documents, as such substitute note may be amended, supplemented or restated from time to time.

“*Opinion of Counsel*” means a written opinion of legal counsel, acceptable to the recipient(s) of such opinion. If the opinion is with respect to an interpretation of federal tax laws or regulations or bankruptcy matters, such legal counsel also must be an attorney or firm of attorneys experienced in such matters.

“*Optional Tender*” means any optional tender of any Bond pursuant to the demand of the Beneficial Owner under the Indenture.

“*Optional Tender Notice*” means a notice of Optional Tender delivered by a Bondholder to the Tender Agent pursuant to the Indenture.

“*Outstanding*” means, when used with reference to the Bonds at any date as of which the amount of Outstanding Bonds is to be determined, all Bonds which have been authenticated and delivered under the Indenture except:

- Bonds cancelled or delivered for cancellation at or prior to such date;
- Bonds deemed to be paid in accordance with the Indenture; and
- Bonds in lieu of which others have been authenticated under the Indenture.

In determining whether the owners of a requisite aggregate principal amount of Outstanding Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Indenture, Bonds which are owned or held by or for the account of the Borrower and Pledged Bonds will be disregarded and deemed not to be Outstanding under the Indenture for the purpose of any such determination unless all Bonds are Pledged Bonds, Bonds owned or held by or for the account of the Borrower or a combination of Pledged Bonds and Bonds owned by or held for the account of the Borrower. In determining whether the Trustee will be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which are registered in the name of or known by the Trustee to be held for the account of the Borrower, including Pledged Bonds, will be disregarded.

“Permitted Investments” means, to the extent authorized by law for investment of moneys of the Issuer:

- (a) Government Obligations.
- (b) Direct obligations of, and obligations on which the full and timely payment of principal and interest is unconditionally guaranteed by, any agency or instrumentality of the United States of America (other than the Federal Home Loan Mortgage Corporation) or direct obligations of the World Bank, which obligations are rated in the Highest Rating Category.
- (c) Obligations, in each case rated in the Highest Rating Category, of (i) any state or territory of the United States of America, (ii) any agency, instrumentality, authority or political subdivision of a state or territory or (iii) any public benefit or municipal corporation the principal of and interest on which are guaranteed by such state or political subdivision.
- (d) Any written repurchase agreement entered into with a Qualified Financial Institution whose unsecured short term obligations are rated in the Highest Rating Category.
- (e) Commercial paper rated in the Highest Rating Category.
- (f) Interest bearing negotiable certificates of deposit, interest bearing time deposits, interest bearing savings accounts and bankers’ acceptances, issued by a Qualified Financial Institution if either (A) the Qualified Financial Institution’s unsecured short term obligations are rated in the Highest Rating Category or (B) such deposits, accounts or acceptances are fully insured by the Federal Deposit Insurance Corporation.
- (g) an agreement held by the Trustee for the investment of moneys at a guaranteed rate with (i) the Credit Provider or (ii) a Qualified Financial Institution whose unsecured long-term obligations are rated in the Highest Rating Category, or whose obligations are unconditionally guaranteed or insured by a Qualified Financial Institution whose unsecured long-term obligations are rated in the Highest Rating Category; provided that such agreement is in a form acceptable to the Credit Provider; and provided further that such agreement includes the following restrictions:
 - (1) the invested funds will be available for withdrawal without penalty or premium, at any time that (A) the Trustee is required to pay moneys from the Fund(s) established under this Indenture to which the agreement is applicable, or (B) any Rating Agency indicates that it will lower or actually lowers, suspends or withdraws the rating on the Bonds on account of the rating of the Qualified Financial Institution providing, guaranteeing or insuring, as applicable, the agreement;
 - (2) the agreement, and if applicable the guarantee or insurance, is an unconditional and general obligation of the provider and, if applicable, the guarantor or insurer of the agreement, and ranks pari passu with all other unsecured unsubordinated obligations of the provider, and if applicable, the guarantor or insurer of the agreement;
 - (3) the Trustee receives an Opinion of Counsel, which may be subject to customary qualifications, that such agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and, if applicable, an Opinion of Counsel that any guaranty or insurance policy provided by a guarantor or insurer is legal, valid, binding and enforceable upon the guarantor or insurer in accordance with its terms; and

(4) the agreement provides that if during its term the rating of the Qualified Financial Institution providing, guaranteeing or insuring, as applicable, the agreement, is withdrawn, suspended by any Rating Agency or falls below the Highest Rating Category, the provider must, within 10 days, either: (A) collateralize the agreement (if the agreement is not already collateralized) with Permitted Investments described in paragraph (a) or (b) by depositing collateral with the Trustee or a third party custodian, such collateralization to be effected in a manner and in an amount sufficient to maintain the then current rating of the Bonds, or, if the agreement is already collateralized, increase the collateral with Permitted Investments described in paragraph (a) or (b) by depositing collateral with the Trustee or a third party custodian, so as to maintain the then current rating of the Bonds, (B) at the request of the Trustee or the Credit Provider, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium unless required by law or (C) transfer the agreement, guarantee or insurance, as applicable, to a replacement provider, guarantor or insurer, as applicable, then meeting the requirements of a Qualified Financial Institution and whose unsecured long-term obligations are then rated in the Highest Rating Category. The agreement may provide that the down-graded provider may elect which of the remedies to the down-grade (other than the remedy set out in (B)) to perform.

(h) Subject to the ratings requirements set forth in this definition, shares in any money market mutual fund (including those of the Trustee or any of its affiliates) registered under the Investment Company Act of 1940, as amended, that have been rated "AAAm-G" or "AAAm" by S&P or "Aaa" by Moody's so long as the portfolio of such money market mutual fund is limited to Government Obligations and agreements to repurchase Government Obligations. If approved in writing by the Credit Provider, a money market mutual fund portfolio may also contain obligations and agreements to repurchase obligations described in paragraphs (b) or (c). If the Bonds are rated by a Rating Agency, the money market mutual fund must be rated "AAAm-G" or "AAAm" by S&P, if S&P is a Rating Agency, or "Aaa" by Moody's, if Moody's is a Rating Agency. If at any time the Bonds are not rated (and, consequently, there is no Rating Agency), then the money market mutual fund must be rated "AAAm-G" or "AAAm" by S&P or "Aaa" by Moody's. If at any time (i) the Bonds are not rated, (ii) both S&P and Moody's rate a money market mutual fund and (iii) one of those ratings is below the level required by this paragraph, then such money market mutual fund will, nevertheless, be deemed to be rated in the Highest Rating Category if the lower rating is no more than one rating category below the highest rating category of that rating agency.

(i) Any other investment authorized by the laws of the State, if such investment is approved in writing by the Credit Provider.

Permitted Investments shall not include any of the following:

(1) Except for any investment described in the next sentence, any investment with a final maturity or any agreement with a term greater than one year from the date of the investment. This exception (1) shall not apply to any obligation that provides for the optional or mandatory tender, at par, by the holder of such obligation at least once within one year of the date of purchase, Government Obligations irrevocably deposited with the Trustee for payment of Bonds pursuant to Section 9.3, and Permitted Investments listed in paragraphs (g) and (i).

(2) Except for any obligation described in paragraph (a) or (b), any obligation with a purchase price greater or less than the par value of such obligation.

(3) Any asset-backed security, including mortgage backed securities, real estate mortgage investment conduits, collateralized mortgage obligations, credit card receivable asset-backed securities and auto loan asset-backed securities.

(4) Any interest-only or principal-only stripped security.

(5) Any obligation bearing interest at an inverse floating rate.

(6) Any investment which may be prepaid or called at a price less than its purchase price prior to stated maturity.

(7) Any investment the interest rate on which is variable and is established other than by reference to a single index plus a fixed spread, if any, and which interest rate moves proportionately with that index.

(8) Any investment described in paragraph (d) or (g) with, or guaranteed or insured by, a Qualified Financial Institution described in clause (iv) of the definition of Qualified Financial Institution if such institution does not agree to submit to jurisdiction, venue and service of process in the United States of America in the agreement relating to the investment.

(9) Any investment to which S&P has added an “r” or “t” highlighter.

“*Person*” means a natural person, estate, trust, corporation, partnership, limited liability company, association, public body or any other organization or entity (whether governmental or private).

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

“*Pledge Agreement*” means the Pledged Bonds, Custody and Security Agreement, dated as of September 1, 2006, by and among the Borrower, the Trustee, as collateral agent for Fannie Mae and Fannie Mae, as such agreement may be amended, modified, supplemented or restated from time to time.

“*Pledged Bond*” means any Bond during the period from and including the date of its purchase by the Trustee on behalf of and as agent for the Borrower with the proceeds of an Advance under the Credit Facility or a draw under an Alternate Credit Facility, as applicable, to, but excluding, the date on which the amount of a draw or Advance (a Liquidity Advance under the Credit Facility) made by the Credit Provider on account of such Pledged Bond is reinstated under the Credit Facility.

“*Principal Amount*” means \$5,015,000, the outstanding principal amount of the Bonds on the Closing Date.

“*Principal Reserve Fund*” means the Principal Reserve Fund created by the Indenture.

“*Prior Bonds*” means the Texas Department of Housing and Community Affairs Multifamily Housing Mortgage Revenue Bonds (Red Hills Villas) Series 2000A in the aggregate principal amount of \$9,900,000 issued pursuant to a Trust Indenture dated as of December 1, 2000 by and between the Issuer and Wells Fargo Bank Texas, National Association as trustee (the “Prior Trustee”) and a First

Supplemental Trust Indenture dated as of August 1, 2004 by and among the Issuer, Wells Fargo Bank, National Association, as successor in interest to the Prior Trustee and U.S. Bank Trust National Association, as custodian.

“Qualified Financial Institution” means any of: (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank, a savings and loan association, or an insurance company or association chartered or organized under the laws of any state of the United States of America, (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provisions of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, (v) government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, (vi) securities dealer approved in writing by the Credit Provider the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation and (vii) any other entity which is acceptable to the Credit Provider. With respect to an entity which provides an agreement held by the Trustee for the investment of moneys at a guaranteed rate as set out in paragraph (g) of the definition of the term *“Permitted Investments”* or an entity which guarantees or insures, as applicable, the agreement, a *“Qualified Financial Institution”* may also be a corporation or limited liability company organized under the laws of any state of the United States of America.

“Qualified Project Period” has the meaning set forth in *“APPENDIX – SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT.”*

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

“Rate Determination Date” means with respect to the Weekly Variable Rate, Wednesday of each week, or if such Wednesday is not a Business Day the following day or if such day is not a Business Day, then the first Business Day before such Wednesday; provided, however, that upon any adjustment to the Weekly Variable Rate Mode from a Reset Rate, the first Rate Determination Date will be the Business Day prior to the Adjustment.

“Rating Agency” means any nationally recognized statistical rating agency then maintaining a rating on the Bonds.

“Rebate Analyst” means a Person that is (i) qualified and experienced in the calculation of rebate payments under Section 148 of the Code and in compliance with the arbitrage rebate regulations promulgated under the Code, (ii) chosen by the Borrower and (iii) engaged for the purpose of determining the amount of required deposits, if any, to the Rebate Fund.

“Rebate Analyst’s Fee” means the annual continuing fee of the Rebate Analyst, if any, for its rebate calculation services.

“Rebate Fund” means the Rebate Fund created by the Indenture.

“*Record Date*” means, with respect to any Interest Payment Date during a Weekly Variable Rate Period, the Business Day before the Interest Payment Date.

“*Redemption Account*” means the Redemption Account of the Revenue Fund.

“*Redemption Date*” means any date upon which Bonds are to be redeemed pursuant to the Indenture.

“*Registered Owner*” means the registered owner of any Bonds, as shown in the Bond Register.

“*Regulatory Agreement*” means the Amended and Restated Regulatory and Land Use Restriction Agreement dated as of the date of the Indenture among the Issuer, the Borrower and the Trustee, as it may be amended, supplemented or restated from time to time.

“*Reimbursement Agreement*” means the Reimbursement Agreement, dated as of the date of the Indenture, between the Credit Provider and the Borrower, as it may be amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

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

“*Remarketing Agent*” means Stern Brothers & Co., or any successor as Remarketing Agent designated in accordance with the Indenture.

“*Remarketing Agent’s Fee*” means the continuing fee of the Remarketing Agent for its remarketing services.

“*Remarketing Agreement*” means the Remarketing Agreement, dated as of September 1, 2006, by and between the Borrower and the Remarketing Agent, as amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

“*Remarketing Notice Parties*” means the Borrower, the Issuer, the Trustee, the Tender Agent, the Remarketing Agent, Credit Provider and the Loan Servicer.

“*Reserved Rights*” means (a) all of the Issuer’s right, title and interest in and to all indemnification rights of the Issuer, (b) all rights of the Issuer to receive the Issuer Fees and to collect the Asset Oversight Agent’s Fee, and out-of-pocket expenses incurred to third parties (including attorneys’ fees) by the Issuer itself or its officers, officials, agents or employees, including, but not limited to, any amounts due to the Issuer under the provisions of the Indenture, (c) all rights of the Issuer to receive or rely upon notices, reports, opinions, certifications and other information and to make any determination and to grant any approval or consent to anything in the Bond Documents that specifically requires the determination, consent or approval of the Issuer, (d) all rights of the Issuer to enforce the representations, warranties, covenants and agreements of the Borrower set forth in the Financing Agreement, the Borrower’s Tax Certificate and in the Regulatory Agreement, (e) any and all rights, remedies and limitations of liability of the Issuer set forth in the Bond Documents regarding (1) the negotiability, registration and transfer of the Bonds, (2) the loss or destruction of the Bonds, (3) the limited liability of the Issuer as provided in the Act and in the Issuer Documents, (4) the maintenance of insurance by the Borrower, (5) no liability of the Issuer to third parties, and (6) no warranties of suitability or

merchantability by the Issuer, (f) all rights of the Issuer in connection with any amendment to or modification of the Bond Documents, (g) all rights of the Issuer to inspect and audit the books, records and permits of the Borrower and the Development, and (h) any and all rights required for the Issuer to comply with Section 2306.186 of the Texas Government Code.

“*Reset Date*” means any date upon which the Bonds begin to bear interest at a Reset Rate for the Reset Period then beginning.

“*Reset Period*” means each period of 10 years or more selected by the Borrower, or such shorter period as may be selected by the Borrower with the prior written consent of the Credit Provider, during which the Bonds bear interest at a Reset Rate.

“*Reset Rate*” means during any Reset Period the rate of interest borne by the Bonds as determined in accordance with the Indenture.

“*Revenue Fund*” means the Revenue Fund created by the Indenture.

“*Revenues*” means all (i) payments made under the Credit Facility, (ii) Investment Income (excluding Investment Income earned from moneys on deposit in the Principal Reserve Fund, the Rebate Fund, the Fees Account and the Costs of Issuance Fund, but including Investment Income earned on Net Bond Proceeds deposited into the Costs of Issuance Fund and Investment Income on such Investment Income) and (iii) payments to the Trustee made under the Note.

“*Securities Depository*” means, initially, DTC and its successors and assigns, and any replacement securities depository appointed under the Indenture.

“*Security*” means the Trust Estate and the Credit Facility.

“*Security Instrument*” means the Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of September 1, 2006, together with all riders and exhibits, securing the Note, and the obligations of the Borrower to the Credit Provider under the Credit Facility Documents, each as executed by the Borrower with respect to the Mortgaged Property, as they may be amended, supplemented or restated from time to time, or any security instrument executed in substitution therefor, as such substitute security instrument may be amended, supplemented or restated from time to time.

“*Servicing Fee*” means the fee payable to the Loan Servicer for servicing the Loan for the Credit Provider.

“*Sinking Fund Payment*” means, as of any particular date of calculation, the amount required to be paid by the Issuer on a single future date for the retirement of Outstanding Bonds which mature after such future date, but excluding any amount payable by the Issuer by reason of the maturity of a Bond or by optional redemption at the election of the Borrower.

“*Sinking Fund Schedule*” means a schedule of principal amounts of Bonds to mature or be subject to redemption through the application of Sinking Fund Payments on the specified dates and/or a schedule of principal amounts of Bonds maturing as serial Bonds. SEE “APPENDIX H – SINKING FUND SCHEDULE.”

“*S&P*” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors and assigns, or if it is dissolved or no longer assigns credit ratings, then any other nationally recognized statistical rating agency, designated by the Credit Provider, as assigns credit ratings.

“*State*” means the State of Texas.

“*State Restrictive Period*” means, with respect to the Development, the period beginning on September 1, 2006 and ending on the latest of (i) the date that is 30 years after the first day of the State Restrictive Period, (ii) the first date on which no tax-exempt private activity bond issued with respect to the Development is outstanding for federal income tax purposes, or (iii) the date on which any assistance provided with respect to the Development under Section 8 of the Housing Act terminates.

“*Substitution Date*” means the date upon which an Alternate Credit Facility is to be substituted for the Credit Facility then in effect, which date must be an Interest Payment Date during a Weekly Variable Rate Period or an Adjustment Date which immediately follows a Reset Period.

“*Tax Certificate*” means, collectively, the No-Arbitrage Certificate and the Borrower’s Tax Certificate.

“*Tax Credits*” means the low-income housing tax credits allocated to the Development pursuant to Section 42 of the Code.

“*Tax Event*” has the meaning given to that term as set forth in APPENDIX B: “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE — Defaults and Remedies — Non-Default and Prohibition of Mandatory Redemption Upon Tax Event.”

“*Tenant Income Certification*” means a certification as to income and other matters executed by the household members of each tenant in the Development, in such form as is available on the Issuer’s website at the time of such execution by the tenant in satisfaction of the criteria prescribed by the Secretary HUD under Section 8(f)(3) of the Housing Act for purposes of determining whether a family is a lower-income family within the meaning of Section 8(f)(1) of the Housing Act and regulations of the Issuer and as described in Sections 3(b) and 5 of the Regulatory Agreement.

“*Tender Agent*” means the Tender Agent named in the Indenture or its successor as Tender Agent under the Indenture named in accordance with the Indenture.

“*Tender Agent Agreement*” means any Tender Agent Agreement entered into by the Issuer, the Trustee and the Tender Agent in the event that the Trustee does not serve as Tender Agent under the Indenture, as such agreement may be amended, supplemented or restated from time to time.

“*Tender Agent’s Annual Fee*” means the annual continuing fee of the Tender Agent .

“*Tender Date*” means, for any Mandatory Tender, any Mandatory Tender Date or any other date on which Bondholders are permitted under the Indenture to tender their Bonds for purchase.

“*Tendered Bond*” means any Bond which has been tendered for purchase pursuant to the applicable provisions of the Indenture.

“*Third Party Fees*” means the Issuer’s Fee, the Rebate Analyst’s Fee, the Remarketing Agent’s Fee, the Tender Agent’s Annual Fee, the Asset Oversight Agent’s Fee and the Trustee’s Annual Fee. Neither the Fees and Expenses nor the Facility Fee is a Third Party Fee.

“*Transaction Documents*” means the Bond Documents, the Loan Documents and the Credit Facility Documents.

“*Trust Estate*” means the property, interests, rights, money, securities and other amounts pledged and assigned pursuant to the Indenture and the property, rights, money, securities and other amounts pledged and assigned by the Issuer to the Trustee and the Credit Provider pursuant to the Assignment.

“*Trustee*” means Wells Fargo Bank, National Association, a national banking association, duly organized and existing under the laws of the United States of America, or its successors or assigns, or any other corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at any time serving as successor trustee under the Indenture.

“*Trustee’s Annual Fee*” means the annual continuing trust administration fee in the amount of \$5,000 payable by the Borrower as provided in the Financing Agreement, payable annually in advance.

“*UCC*” means the Uniform Commercial Code of the State as in effect now or in the future, whether or not such Uniform Commercial Code is applicable to the parties or the transactions.

“*Underwriter*” means Stern Brothers & Co.

“*USD-BMA Municipal Swap Index*” has the meaning given to that term in Supplement 19 to the 2000 International Swaps and Derivatives Association, Inc. (“ISDA”) Definitions and Annex to the 2000 ISDA Definitions, as amended and supplemented from time to time.

“*Week*” means any seven-day period during a Weekly Variable Rate Period beginning on Thursday and ending on and including the following Wednesday; except that:

(a) the first Week will begin on the Closing Date and end on and include Wednesday of the following week;

(b) the first Week of a Weekly Variable Rate Period immediately following an Adjustment Date will begin on such Adjustment Date and end on and include the following Wednesday;

(c) any Week ending immediately before an Adjustment Date will begin on a Thursday and end on the day before such Adjustment Date;

(d) the final Week will begin on a Thursday and end on the earlier of an Adjustment Date or the Maturity Date; and

(e) the first and last Weeks of a Weekly Variable Rate Period may consist of more (but not more than 13) or less than 7 days.

“*Weekly Variable Rate*” means the variable rate of interest per annum for the Bonds determined from time to time during the Weekly Variable Rate Period in accordance with the Indenture.

“*Weekly Variable Rate Period*” means the period commencing on the Closing Date or an Adjustment Date on which the interest rate on the Bonds is adjusted from the Reset Rate to the Weekly Variable Rate and ending on the day preceding the following Adjustment Date or the Maturity Date.

“Wrongful Dishonor” means an uncured failure by the Credit Provider to pay a Draw or make an Advance, as applicable, to the Trustee upon proper presentation of documents which conform to the terms and conditions of the Credit Facility then in effect.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture that have not been described elsewhere in this Official Statement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, a copy of which is on file with the Trustee.

Funds and Accounts

The following Funds and Accounts were created with the Trustee under the Indenture:

- (a) Bond Proceeds Fund;
- (b) the Revenue Fund and within the Revenue Fund, the Interest Account, the Credit Facility Account, the Redemption Account and the Fees Account;
- (c) the Costs of Issuance Fund;
- (d) the Rebate Fund;
- (e) so long as any Bonds are Outstanding and have not been adjusted to the Fixed Rate, the Bond Purchase Fund; and
- (f) the Principal Reserve Fund.

The Trustee will hold and administer the Funds and Accounts in accordance with the Indenture.

Bond Proceeds Fund

Disbursements From the Bond Proceeds Fund. On the Closing Date, upon satisfaction of the conditions to delivery of the Bonds as provided in the Indenture, the Trustee will deposit to the Bond Proceeds Fund the Net Bond Proceeds from the sale of the Bonds. Net Bond Proceeds on deposit in the Bond Proceeds Fund are to be dispersed to the trustee for the Prior Bonds to be used for the immediate redemption of a portion of the Prior Bonds. Upon disbursement of all amounts in the Bond Proceeds Fund, the Trustee will close the Bond Proceeds Fund.

Revenue Fund – Interest Account

Deposits into the Interest Account. The Trustee will deposit each of the following amounts into the Interest Account:

- (a) on the Closing Date, the accrued interest, if any, on the Bonds, as provided in the Indenture;
- (b) moneys provided by or on behalf of the Borrower relating to an interest payment under the Note;
- (c) all Investment Income on the Funds and Accounts (except that Investment Income earned on amounts on deposit in the Rebate Fund, Costs of Issuance Fund, and the

Principal Reserve Fund is to be credited to and retained in those respective Funds or Accounts); and

(d) any other moneys made available for deposit into the Interest Account from any other source, including, but not limited to, any excess amounts in the Bond Purchase Fund pursuant to the Indenture.

Disbursements from the Interest Account. The Trustee will disburse or transfer, as applicable, moneys on deposit in the Interest Account at the following times and apply such moneys in the following manner and in the following order of priority:

(a) On each Interest Payment Date during any Reset Period or Fixed Rate Period, Redemption Date and any date of acceleration of the Bonds, the Trustee will disburse (x) to the Credit Provider, the amount of the interest component of any Advance under the Credit Facility for payment of interest on the Bonds or (y) in the event of a Wrongful Dishonor until such Wrongful Dishonor is cured, to the Bondholders, an amount equal to the interest due on the Bonds on such date;

(b) If the Credit Provider or the Loan Servicer gives a written notice to the Trustee at any time to the effect that there is any unreimbursed Advance under the Credit Facility or any other amount required to be paid by the Borrower to the Credit Provider under the Loan Documents, the Bond Documents or the Credit Facility Documents remains unpaid, then the Trustee will transfer any Investment Income earned on the Interest Account from and after the preceding Interest Payment Date or the Closing Date, as applicable, to the Credit Provider but not in an amount which exceeds the amount stated as unpaid by the Credit Provider or the Loan Servicer, as the case may be, in its notice to the Trustee; and

(c) Unless there is (A) a deficiency in the Principal Reserve Fund, the Fees Account or the Rebate Fund or (B) other than as described in paragraph (b) above, an Event of Default under the Reimbursement Agreement or any Bond Document or a default under any Loan Document has occurred and is continuing, on each Interest Payment Date the Trustee will disburse to the Borrower the Investment Income earned on the Interest Account from and after the preceding Interest Payment Date or the Closing Date, as applicable. If a deficiency exists in the Principal Reserve Fund, the Fees Account or the Rebate Fund, such Investment Income is to be transferred to the Principal Reserve Fund, the Fees Account and/or the Rebate Fund, in that order of priority, prior to any payment to the Borrower.

Revenue Fund – Redemption Account

Deposits into the Redemption Account. The Trustee will deposit each of the following amounts into the Redemption Account:

(a) Available Moneys provided by or on behalf of the Borrower to fund the premium payable on Bonds in connection with a redemption of such Bonds, which amounts are to be held in a segregated subaccount in the Redemption Account;

(b) moneys provided by or on behalf of the Borrower relating to a principal payment, including any prepayment, under the Note;

(c) moneys transferred from the Principal Reserve Fund pursuant to the terms of the Indenture governing the Principal Reserve Fund (as described below under the heading “Principal Reserve Fund”); and

(d) any other amount received by the Trustee and required by the terms of the Indenture or the Financing Agreement to be deposited into the Redemption Account.

Disbursements from the Redemption Account. On each Redemption Date, date of acceleration of the Bonds and the Maturity Date, the Trustee will disburse from the Redemption Account (x) to the Credit Provider, the amount of any Advance, under the Credit Facility relating to the payment of principal on the Bonds, or, (y) in the event of a Wrongful Dishonor, to the Bondholders, an amount equal to the principal due on the Bonds on such date. In addition, on any date on which premium payable on Bonds in connection with a redemption of such Bonds is due, the Trustee will disburse to the Bondholders, from the segregated subaccount in the Redemption Account, Available Moneys in an amount sufficient to pay such premium.

Revenue Fund – Credit Facility Account

Deposits into the Credit Facility Account. The Trustee will deposit into the Credit Facility Account all Advances under the Credit Facility, except for (i) Advances on account of Issuer’s Fee and (ii) Mandatory Tender Advances and Liquidity Advances. That portion of any Advance on account of Issuer’s Fee will be deposited into the Fees Account. Any Mandatory Tender Advance and any Liquidity Advance will be deposited into the Bond Purchase Fund pursuant to the Indenture. No other moneys are to be deposited into the Credit Facility Account and the Credit Facility Account will be maintained as a segregated account and moneys therein will not be co-mingled with any other moneys held under the Indenture. The Credit Facility Account is to be closed at such time as the Credit Provider has no continuing liability under the Credit Facility.

Transfers from the Credit Facility Account. The Trustee will cause amounts deposited into the Credit Facility Account to be applied on the date payment is due to the payments for which the Advance was made pursuant to the Credit Facility. In no event are amounts in the Credit Facility Account to be applied to the payment of principal of and interest and any premium on any Pledged Bonds or on any Bonds known by the Trustee to be held by the Borrower or any Affiliate of the Borrower. Any amounts remaining in the Credit Facility Account after making the payment for which the Advance was made pursuant to the Credit Facility are to be immediately refunded to the Credit Provider.

Revenue Fund – Fees Account

Deposits into the Fees Account. The Trustee will deposit into the Fees Account the (i) payments made by the Borrower under the Financing Agreement attributable to the Issuer’s Fee, and the fees and expenses of the Trustee, the Tender Agent, the Remarketing Agent and the Rebate Analyst (collectively, “**Third Party Fees**”), and (ii) amounts derived from the Credit Facility for the payment of the Issuer’s Fee.

Disbursements from the Fees Account. On any date on which any amounts are required to pay any Third Party Fees or any Fees and Expenses, such amounts will be withdrawn by the Trustee from the Fees Account for payment to the appropriate party; provided, however, that amounts derived from the Credit Facility and deposited into the Fees Account will be used only to pay the Issuer’s Fee when due. In the event the amount in the Fees Account is insufficient to pay such Third Party Fees, the Trustee will make written demand on the Borrower for the amount of such insufficiency and, pursuant to the terms of

the Financing Agreement, the Borrower will be liable to promptly pay the amount of such insufficiency to the Trustee after the date of the Trustee's written demand.

No other Claims to Trust Estate. None of the Tender Agent, the Remarketing Agent or the Rebate Analyst will have any right to any moneys in any Fund or Account or otherwise in the Trust Estate other than those moneys deposited pursuant to the Indenture into the Fees Account specifically for such Person. Except as otherwise stated in the sections of the Indenture governing (a) disposition of remaining moneys (as described below under the subheading "Disposition of Remaining Moneys") and (b) the payment of outstanding amounts, the Issuer will not have any right to any moneys in any Fund or Account or otherwise in the Trust Estate other than those moneys deposited pursuant to the Indenture into the Fees Account specifically for the Issuer. Except as otherwise stated in the Indenture, the Trustee will not have any right to any moneys in any Fund or Account or otherwise in the Trust Estate other than those moneys deposited pursuant to the Indenture into the Fees Account specifically for the Trustee.

Costs of Issuance Fund

Deposits into the Costs of Issuance Fund. On or before the Closing Date the Borrower will deliver the Costs of Issuance Deposit to the Trustee. On the Closing Date, the Trustee will deposit or transfer, as applicable, the Costs of Issuance Deposit into the Costs of Issuance Fund.

Disbursements from the Costs of Issuance Fund. The Trustee will disburse moneys on deposit in the Costs of Issuance Fund to pay Costs of Issuance. Moneys on deposit in the Costs of Issuance Fund will not be part of the Trust Estate and will be used solely to pay Costs of Issuance.

Disposition of Remaining Amounts. Any moneys remaining in the Costs of Issuance Fund six months after the Closing Date and not needed to pay still unpaid Costs of Issuance are to be returned to the Borrower. Upon final disbursement, the Trustee will close the Costs of Issuance Fund.

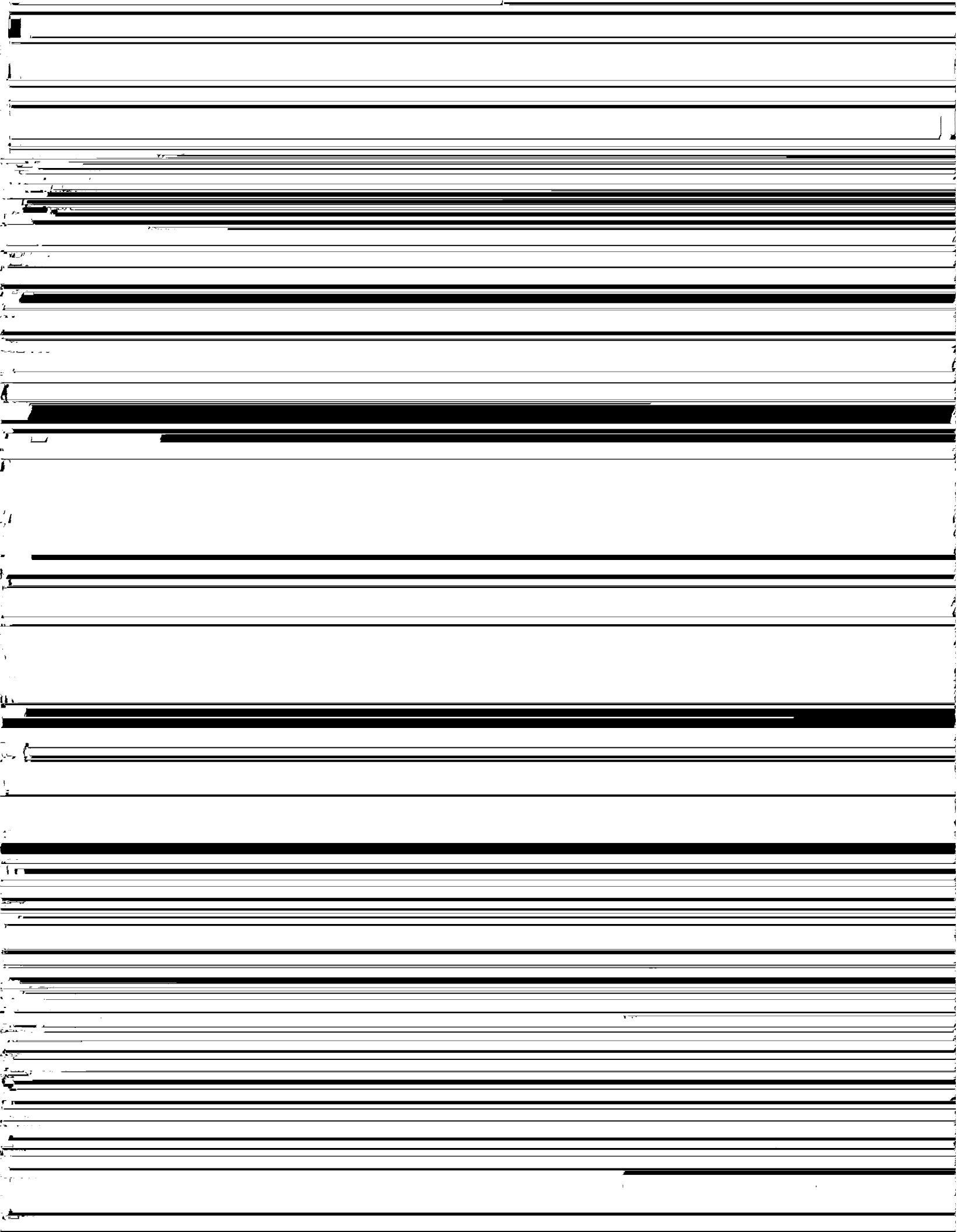
Rebate Fund

The Rebate Fund will be held and applied as provided in the Indenture. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy any Rebate Requirement (as calculated by the Rebate Analyst) to the United States Government; none of the Issuer, the Borrower, the Bondholders or the Credit Provider will have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Indenture, by the Financing Agreement and by the Tax Certificate.

Bond Purchase Fund

Deposits into Bond Purchase Fund. The Trustee will deposit each of the following into the Bond Purchase Fund: (a) remarketing proceeds received upon the remarketing of Tendered Bonds to any Person; and (b) any Liquidity Advances or Mandatory Tender under the Credit Facility to enable the Trustee to pay the purchase price of Tendered Bonds to the extent that moneys obtained pursuant to clause (a) are insufficient on any date to pay the purchase price of Tendered Bonds which amounts the Trustee will transfer to the Tender Agent on or before 3:00 p.m. Eastern Time on each Tender Date.

Subject to the provisions of the Indenture permitting reimbursement of amounts owed to the Credit Provider, moneys in the Bond Purchase Fund are to be held uninvested and exclusively for the payment of the purchase price of Tendered Bonds. Amounts held to pay the purchase price for more than two years are to be applied in the same manner as provided under the Indenture with respect to unclaimed payments of principal and interest.



Investment Limitations

Except as provided below, moneys held as part of any Fund or Account will be invested and reinvested in Permitted Investments. Permitted Investments will have maturities corresponding to, or will be available for withdrawal without penalty no later than, the dates upon which such moneys will be needed for the purpose for which such moneys are held. Moneys on deposit in the (i) Interest Account are to be invested only in investments described in paragraphs (a), (b), (c) and (h) of the definition of Permitted Investments, (ii) Redemption Account will be invested only in investments described in paragraph (a) or (h) of the definition of Permitted Investments, with a term not exceeding the earlier of 30 days from the date of investment of such moneys or the date or dates that such moneys are anticipated to be required for redemption, (iii) Credit Facility Account and Bond Purchase Fund will be held uninvested and (iv) Costs of Issuance Fund, until disbursed or returned to the Borrower pursuant to the Indenture, are to be invested only in investments described in paragraph (h) of the definition of Permitted Investments. Permitted Investments will be held by or under the control of the Trustee. All Investment Income from moneys held in all Funds and Accounts other than the Rebate Fund, the Costs of Issuance Fund (other than as provided below) and the Principal Reserve Fund, upon receipt, will be deposited into the Interest Account. Investment Income from moneys held in the Rebate Fund, the Costs of Issuance Fund and the Principal Reserve Fund will remain in the respective Fund where earned.

The Credit Facility

Acceptance of the Credit Facility. The Trustee will hold the Credit Facility and will enforce in its name all rights of the Trustee and all obligations of the Credit Provider under the Credit Facility for the benefit of the Bondholders. The Trustee will not assign or transfer the Credit Facility except (i) to a successor Trustee under the Indenture, (ii) to the Credit Provider upon expiration or other termination of the Credit Facility in accordance with its terms, including expiration on its stated expiration date or (iii) upon payment under the Credit Facility of the full amount payable under the Credit Facility. The Issuer and the Trustee have acknowledged in the Indenture that the obligations of Fannie Mae as the Credit Provider under the initial Credit Facility are not backed by the full faith and credit of the United States of America, but by the credit of Fannie Mae, a federally-chartered, stockholder owned corporation.

Requests for Advances under the Credit Facility. The Trustee will request Advances under the Credit Facility in accordance with its terms and cause the proceeds of each Advance to be applied so that full and timely payments are made on each date on which payment of principal, interest or purchase price is due on any Bond or any payment of the Issuer's Fee is due and not paid by the Borrower pursuant to the Financing Agreement. The Trustee will not request, and will not apply the proceeds of, any Advance to pay (i) principal of, interest on or the purchase price of, any Pledged Bond or any Bond known by the Trustee to be held by the Borrower or any Affiliate of the Borrower, (ii) premium that may be payable upon the redemption of any of the Bonds or (iii) interest that may accrue on any of the Bonds on or after the maturity of such Bond. Prior to requesting an Advance to pay principal of or interest on the Bonds on an Interest Payment Date, the Trustee will determine the amount necessary to make such payment of principal or interest.

Return of Payments under the Credit Facility. In the event the Trustee receives a Liquidity Advance or Mandatory Tender from the Credit Provider on account of any Tendered Bond and thereafter the Trustee receives remarketing proceeds upon the remarketing of such Tendered Bond, then the Trustee will promptly reimburse the Credit Provider with such funds to the extent of the amount so paid by the Credit Provider as a reimbursement on behalf of the Borrower.

Alternate Credit Facility

Subject to the terms of the Credit Facility Documents, the Trustee will accept any Alternate Credit Facility delivered to the Trustee in substitution for the Credit Facility then in effect if:

- (a) the Alternate Credit Facility meets the requirements of the Indenture;
- (b) the Substitution Date for the Alternate Credit Facility is an Interest Payment Date during a Weekly Variable Rate Period or an Adjustment Date which immediately follows a Reset Period;
- (c) the Alternate Credit Facility is effective on and from the Substitution Date for such Alternate Credit Facility; and
- (d) the Trustee receives on or prior to the effective date of the Alternate Credit Facility (i) an Opinion of Counsel to the Credit Provider issuing the Alternate Credit Facility, in form and substance satisfactory to the Issuer and the Trustee, relating to the due authorization and issuance of the Alternate Credit Facility, its enforceability and that the Alternative Credit Facility satisfies the requirements of the Indenture, and (ii) a Favorable Opinion of Bond Counsel.

The Trustee will give notice to the Bondholders by first class mail, postage prepaid, of the substitution by such Alternate Credit Facility for the Credit Facility then in effect as provided in the Indenture. On the Substitution Date, the Trustee will, if necessary, draw, on the Credit Facility being replaced and will not surrender such Credit Facility until all requests thereon have been honored.

Wrongful Dishonor

Upon a Wrongful Dishonor, the Trustee will give immediate telephonic notice of such dishonor to the Remarketing Agent, the Issuer, the Borrower, the Credit Provider and the Loan Servicer.

Discharge of Lien and Security Interest

Discharge. Upon satisfaction of the conditions described in the following paragraph, the Trustee will (i) cancel and discharge the Indenture and the pledge and assignment of the Security, (ii) execute and deliver to the Issuer such instruments in writing prepared by the Issuer or its counsel and provided to the Trustee and the Credit Provider as may be required to cancel and discharge the Indenture and the pledge and assignment of the Trust Estate, (iii) release, reconvey, assign and deliver to the Issuer so much of the Trust Estate as may be in its possession or subject to its control (except for (A) moneys and Government Obligations held for the purpose of paying Bonds and (B) moneys and Investments held in the Rebate Fund for payment to the United States Government) who will, in turn, convey, assign and deliver the remaining Trust Estate to the Borrower, and (iv) return the Credit Facility to the Credit Provider.

Conditions to Discharge. The conditions precedent to the cancellation and discharge of the Indenture and the other acts described in the immediately preceding paragraph are (i) payment in full of the Bonds, (ii) payment of the Trustee's Annual Fee and the Trustee's ordinary costs and expenses under the Indenture, (iii) receipt by the Trustee of a written statement from the Credit Provider stating that all obligations owed to the Credit Provider under the Credit Facility Documents have been fully paid, (iv) payment of all Extraordinary Items, (v) receipt by the Trustee of a written statement from the Issuer stating that all amounts owed to the Issuer in respect of Reserved Rights have been fully paid, and (vi) receipt by the Trustee of an Opinion of Counsel, at the expense of the Borrower, stating that all conditions precedent to the satisfaction and discharge of the Indenture have been satisfied.

Survival of Rights and Powers. The Reserved Rights of the Issuer and the rights and powers granted to the Trustee with respect to the payment, transfer and exchange of Bonds will survive the cancellation and discharge of the Indenture.

Payment of Outstanding Amounts

If the Bonds have been paid in full, but any one or more of the other conditions precedent described under “Discharge of Lien and Security Interest — Conditions to Discharge” above are not satisfied because an amount has not been paid, the Trustee, prior to cancellation and discharge of the Indenture, will pay to the persons listed below, in the strict order set out below, the amounts required to satisfy those conditions precedent:

(a) *Issuer Administration Fee, Trustee’s Annual Fee and Ordinary Costs and Expenses.* If any portion of the Issuer Administration Fee, Trustee’s Annual Fee or ordinary costs and expenses of the Trustee remain unpaid, the Trustee will pay to the appropriate party so much of the Trust Estate as will fully pay such unpaid amounts. No Extraordinary Items may be included under this subsection (a).

(b) *Credit Provider.* If the Trustee receives a written statement from the Credit Provider stating that moneys are owed to the Credit Provider under the Credit Facility Documents or the Loan Documents, including obligations in respect of reimbursement of funds advanced by the Credit Provider to the Trustee for application to the payment of Remarketing Expenses, the Trustee will pay to the Credit Provider so much of the remaining Trust Estate as will fully pay all amounts due and owing to the Credit Provider, as determined by the Credit Provider. The Trustee is authorized to rely on the written statement of the Credit Provider as to the amount of such advances and interest accrued on such advances.

(c) *Trustee Extraordinary Items.* If any Extraordinary Items have not been paid to the Trustee, the Trustee will pay to itself so much of the remaining Trust Estate as will fully pay all amounts owing to the Trustee for Extraordinary Items.

(d) *Issuer’s Reserved Rights and Other Fees.* If the Trustee receives a written statement from the Issuer stating that moneys are owed to the Issuer in respect of the Reserved Rights, the Trustee will pay to the Issuer so much of the remaining Trust Estate as will fully pay all amounts owing to the Issuer in respect of the Reserved Rights. If any portion of the Issuer’s Compliance Fee or Asset Oversight Agent’s Fee remains unpaid, the Trustee will pay to the appropriate party so much of the Trust Estate as will fully pay such unpaid amounts.

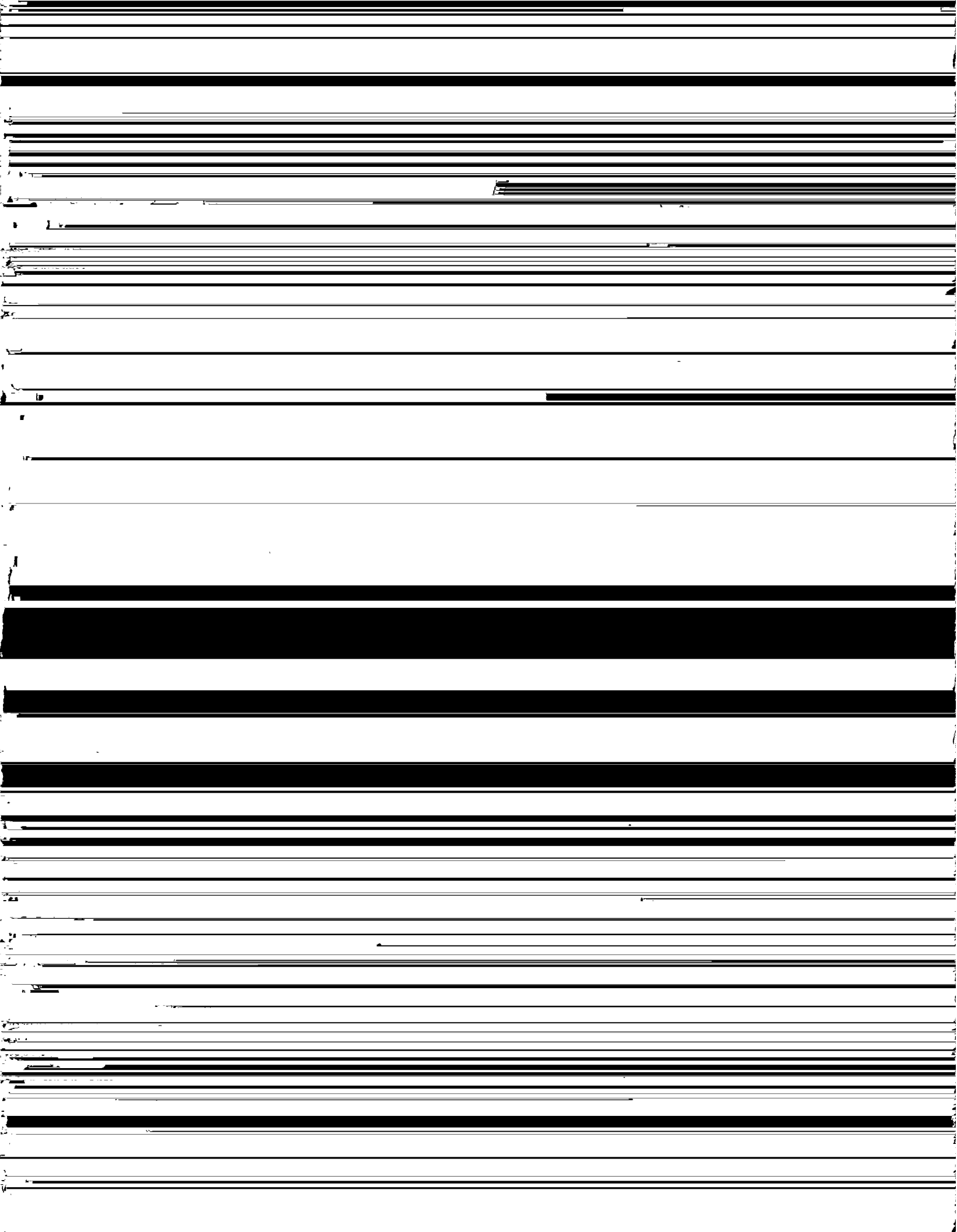
Defeasance

The Bonds may not be defeased pursuant to the Indenture while the Bonds are in the Weekly Variable Rate Mode.

Defaults and Remedies

Each of the following constitutes an Event of Default under the Indenture:

(a) default in the payment when due and payable of any interest due on any Bond (other than a Pledged Bond);



the Credit Provider and the Loan Servicer, declare the principal of all Bonds and the interest accrued, and to accrue, on the Bonds to the date of payment immediately due and payable; or

(b) the occurrence of any other Event of Default under the Indenture, the Trustee may, upon receiving the prior written consent of the Credit Provider, and must, upon the written direction of the Credit Provider requiring that the Bonds be accelerated pursuant to this subsection, by written notice to the Issuer, the Borrower, the Credit Provider and the Loan Servicer, declare the principal of all Bonds and the interest accrued, and to accrue, on the Bonds to the date of declaration immediately due and payable.

Redemption and Mandatory Tender. Upon the occurrence of an Event of Default as a result of an event of default under the Reimbursement Agreement:

(a) if the Credit Provider so directs pursuant to the Indenture, the Bonds will be redeemed in whole or in part in the amount specified by and at the direction of the Credit Provider; or

(b) if the Credit Provider so directs pursuant to the Indenture, the Bonds will be subject to Mandatory Tender.

Notwithstanding anything to the contrary in the Indenture, if the Credit Provider directs that the Bonds be redeemed in part pursuant to the Indenture, the Credit Provider may further direct on one or more other occasions under this subsection that the Bonds be redeemed in whole or in part or that the Bonds be subject to Mandatory Tender. See “THE BONDS — Redemption Provisions — Mandatory Redemption — After an Event of Default Under the Reimbursement Agreement.”

Notice

Acceleration. Upon any decision to accelerate payment of the Bonds, the Trustee will notify the Bondholders of the declaration of acceleration, that, in the event of acceleration as described in subparagraph (b) above under “Acceleration” above, interest on the Bonds will cease to accrue upon such declaration, and payment of the Bonds will be made upon presentment of the Bonds at the Designated Office of the Trustee. Such notice will be sent by registered mail or overnight delivery service, postage prepaid, or, at the Trustee’s option, may be given by Electronic Means to each Registered Owner of Bonds at such Registered Owner’s last address appearing in the Bond Register. Any defect in or failure to give notice of such declaration will not affect the validity of such declaration.

Redemption. Upon the direction of the Credit Provider to redeem the Bonds in whole or in part pursuant the Indenture and as provided in the Indenture, immediate notice of redemption will be given.

Mandatory Tender. Upon any direction of the Credit Provider that the Bonds be subject to Mandatory Tender, the Trustee will give notice to the Bondholders as provided in the Indenture.

Payment Under Credit Facility

Immediately upon acceleration, mandatory redemption or Mandatory Tender of the Bonds, the Trustee will request an Advance under the Credit Facility in accordance with its terms.

Other Remedies

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee may, with or without taking action under the terms of the Indenture governing acceleration of the Bonds (as described under "Acceleration" above), but only with the prior written consent of the Credit Provider, and must at the direction of the Credit Provider if the Event of Default occurs under the Indenture as described in paragraphs (c), (d) or (e) under "Events of Default" above, pursue any of the following remedies:

- (a) an action in mandamus or other suit, action or proceeding at law or in equity (i) to enforce the payment of the principal of and interest and any premium on the Bonds, (ii) for the specific performance of any covenant or agreement contained in the Indenture, the Financing Agreement or the Regulatory Agreement or (iii) to require the Issuer to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;
- (b) the liquidation of the Trust Estate; or
- (c) an action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders and to execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Bondholders against the Issuer allowed in any bankruptcy or other proceeding.

Subject to the provisions of the Indenture governing rights of the Credit Provider and the Bondholders to direct proceedings and the requirement, if any, that the Credit Provider consent in writing to the exercise by the Trustee of any remedy, upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee will exercise such of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most effective to enforce and protect the interests of the Bondholders and, unless a Wrongful Dishonor has occurred and is continuing, the Credit Provider.

Waiver

Subject to the conditions precedent set out below, (i) the Trustee may waive, (ii) the Trustee will waive if directed to do so by the Credit Provider in writing, and (iii) Bondholders owning not less than 51 percent in aggregate principal amount of Bonds then Outstanding may waive, by written notice to the Trustee, any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of maturity of principal. The conditions precedent to any waiver are:

- (a) unless waiver is directed by the Credit Provider, the Credit Provider consents to such waiver in writing;
- (b) the principal and interest on the Bonds in arrears, together with interest thereon (to the extent permitted by law) at the applicable rate or rates of interest borne by the Bonds have been paid or provided for by the Borrower in Available Moneys or by the Credit Provider and all fees and expenses of the Trustee and the Issuer have been paid or provided for by the Borrower or the Credit Provider; and
- (c) after the waiver, the Credit Facility remains in effect in an amount equal to the aggregate principal amount of the Bonds Outstanding (other than Pledged Bonds) plus the Interest Requirement, provided, however, that such waiver will be permitted without the Credit Facility remaining in effect if (i) the Issuer consents to the waiver, (ii) the Rating Agency then

rating the Bonds is notified and the Trustee gives written notice to the Bondholders that the ratings on the Bonds may be reduced or withdrawn upon the occurrence of such waiver, and (iii) 100% of the Bondholders consent to the waiver.

Upon any such waiver, the default or Event of Default will be deemed cured and will cease to exist for all purposes and the Issuer, the Borrower, the Trustee and the Bondholders will be restored to their former positions and rights under the Indenture. No waiver of any default or Event of Default will extend to or affect any subsequent default or Event of Default or will impair any right or remedy consequent thereto.

Rights of the Credit Provider and the Bondholders to Direct Proceedings

Notwithstanding anything contained in the Indenture to the contrary, the Credit Provider itself or Bondholders owning not less than 51% in aggregate principal amount of Bonds then Outstanding, but only with the prior written consent of the Credit Provider, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings under the Indenture, provided, however, that such direction will not be otherwise than in accordance with the provisions of law and of the Indenture, and provided that the Trustee will be indemnified to its reasonable satisfaction (except for actions required under the provisions of the Indenture governing acceleration of the Bonds).

No Bondholder has or will have the right to enforce the provisions of the Indenture or the Financing Agreement, or to institute any proceeding in equity or at law for the enforcement of the Indenture or the Financing Agreement, or to take any action with respect to an Event of Default under the Indenture or an Event of Default under the Financing Agreement, or to institute, appear in or defend any suit or other proceeding with respect to the Indenture or the Financing Agreement upon an Event of Default unless (i) such Event of Default is a Wrongful Dishonor, (ii) such Bondholder has given the Trustee, the Issuer, the Credit Provider, the Loan Servicer and the Borrower written notice of the Event of Default, (iii) the holders of not less than 51% in aggregate principal amount of Bonds then Outstanding have requested the Trustee in writing to institute such proceeding, (iv) the Trustee has been afforded a reasonable opportunity to exercise its powers or to institute such proceeding, (v) the Trustee has been offered reasonable indemnity, where required, and (vi) the Trustee has thereafter failed or refused to exercise such powers or to institute such proceeding within a reasonable period of time. No Bondholder has or will have any right in any manner whatever to affect, disturb or prejudice the pledge of revenues or of any other moneys, Funds, Accounts or securities under the Indenture. Except as described in this paragraph, no Bondholder has or will have under the Indenture the right, directly or indirectly, individually or as a group, to seek to enforce, collect amounts available under, or otherwise realize on, the Credit Facility.

Application of Moneys

Amounts derived from payments under the Credit Facility (other than amounts derived from an Advance to pay the Issuer Administration Fee) will be deposited into the Credit Facility Account and applied solely to pay the principal of and interest on the Bonds. Amounts on deposit in the Bond Purchase Fund will be applied solely to pay the purchase price of the Bonds. All other moneys received by the Trustee pursuant to any action taken under the terms of the Indenture governing Events of Default under the Indenture and remedies therefor, subject to the provisions of the Indenture governing the application of certain moneys at the direction of the Credit Provider (as described herein under the heading "Certain Moneys to be Applied at the Direction of the Credit Provider") will be deposited into

the Interest Account and the Redemption Acct, as applicable, after payment of the ordinary costs and expenses of the Trustee and less such amounts as the Trustee determines may be needed for possible use in paying future fees and expenses and for the preservation and management of the Development (as identified by the Credit Provider), are to be applied as set out below:

Unless the principal on all Bonds has become or been declared due and payable, all moneys will be applied:

First - to the payment of all interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available is not sufficient to pay in full said amount, then to the payment ratably, of the amounts due on such payment, without any discrimination or privilege;

Second - to the payment of the unpaid principal of any of the Bonds which have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the Indenture), in the order of due dates, with interest upon the principal amount of the Bonds from the respective dates upon which they become due at the rate or rates borne by the Bonds, to the extent permitted by law, and, if the amount available is not sufficient to pay in full the principal of such Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled to such payment without any discrimination or privilege; and

Third - to the payment of amounts owed to the Credit Provider under the Credit Facility Documents and the Loan Documents, and then to any amounts due to the Trustee for Extraordinary Items, for this purpose including the costs and expenses of any proceedings resulting in the collection of such moneys and of advances incurred or made by the Trustee.

If the principal of all the Bonds has become or been declared due and payable, all such moneys will be applied first, 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 to payment, until all such principal and interest has been paid; second, to pay the Credit Provider amounts owed to it under the Credit Facility Documents and the Loan Documents; and third, to any other amounts due and payable under the Indenture.

Whenever moneys are to be applied pursuant to the terms of the Indenture described herein under "Application of Moneys," such moneys are applied at such times, and from time to time, as the Trustee determines, having due regard for the amount of such moneys available for application, the likelihood of additional moneys becoming available for such application in the future, and potential expenses relating to the exercise of any remedy or right conferred on the Trustee by the Indenture. Whenever the Trustee applies such moneys, it will fix the date (which will be an Interest Payment Date unless it deems an earlier date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue unless interest has already ceased to accrue in accordance with the Indenture. The Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the owner of any Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

The Trustee

The Trustee has been appointed and agreed to act in such capacity and to perform the duties of the Trustee under the Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement upon the express terms and conditions of the Indenture.

Qualification. The Trustee and any successor Trustee will at all times be a bank or trust company organized under the laws of the United States of America or any state, authorized under such laws to exercise corporate trust powers, having a combined capital stock, surplus and undivided profits of at least \$50,000,000 (or an affiliate of a corporation or banking association meeting that requirement which guarantees the obligations and liabilities of the Trustee) and subject to supervision or examination by federal or state banking authority.

Resignation or Removal of Trustee. The Trustee may resign only upon giving 60 days prior written notice to the Issuer, the Credit Provider, the Loan Servicer, the Borrower and to each Registered Owner of Bonds then Outstanding as shown on the Bond Register. The Trustee may be removed at any time upon 30 days prior written notice to the Trustee, (i) by the Issuer, with the prior written consent of the Credit Provider, (ii) by the owners of not less than 51% in aggregate principal amount of Bonds then Outstanding, which written instrument will designate a successor Trustee approved by the Credit Provider, or (iii) by the Credit Provider. Such resignation or removal will not be effective until a successor Trustee satisfying the requirements of the Indenture is appointed and has accepted its appointment.

Appointment of Successor Trustee. Upon the resignation or removal of the Trustee, a successor Trustee, satisfying the requirements of the Indenture, will be appointed by the Issuer with the prior written consent of the Credit Provider (unless appointed by the Bondholders as provided in the Indenture), provided, however, that if the Borrower is then in default under any Bond Document or any Loan Document or if an event has occurred and is continuing which, with notice or the passage of time or both, would constitute such a default, such appointment will be made by the Issuer with the prior written consent of the Credit Provider. If, in the case of resignation or removal of the Trustee, no successor is appointed within 30 days after the notice of resignation or within 30 days after removal, as the case may be, then, in the case of a resignation, the resigning Trustee will appoint a successor with the prior written consent of the Issuer and the Credit Provider or is to apply to a court of competent jurisdiction for the appointment of a successor Trustee and, in the case of a removal, the Credit Provider will have the right to appoint a successor Trustee or to apply to a court of competent jurisdiction for the appointment of a successor Trustee. The successor Trustee must accept in writing its duties and responsibilities under the Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement.

The Tender Agent

The initial Tender Agent is the Trustee. The Tender Agent will designate to the Trustee, the Issuer, the Remarketing Agent and the Credit Provider its Designated Office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the Trustee under which such Tender Agent will agree particularly to: (a) act as agent for the Trustee for the purpose of authenticating, accepting delivery of and delivering Bonds in accordance with the provisions of the Indenture relating to authentication and delivery of Bonds; (b) forward to the Trustee immediately after completion of such authentication the names, addresses, taxpayer identification numbers or social security numbers of all persons in whose names the Bonds are to be registered; (c) deliver authenticated and registered Bonds to or to the order of the persons in whose names such Bonds are registered; (d) as agent for the Trustee, hold all moneys delivered to it for the purchase of Bonds in trust in the Bond Purchase Fund (or deliver to the Trustee for deposit in the Bond Purchase Fund) for the

account of the person who delivered such moneys until the Bonds purchased with such moneys have been registered, authenticated and delivered to or to the order of such person; and (e) hold all Bonds delivered to it for purchase in trust for the owner of such Bonds until such owner has received the purchase price for such Bonds.

The Tender Agent will be entitled to the same protections, immunities and limitations from liability afforded the Trustee under the Indenture. The Issuer will cooperate with the Trustee, the Borrower and the Credit Provider to cause the necessary arrangements to be made and to be continued by which amounts from the sources specified in the Indenture and in the Financing Agreement are to be made available for the purchase of Bonds presented at the Designated Office of the Tender Agent, and by which Bonds, executed by the Issuer and to be authenticated by the Tender Agent, are to be made available to the Tender Agent to the extent necessary for delivery pursuant to the terms of the Indenture.

The Tender Agent may resign by giving no less than 30 days prior written notice to the Borrower, the Trustee, the Credit Provider, the Loan Servicer and the Issuer. The Tender Agent may be removed by the Borrower with the written approval of the Issuer and Credit Provider, by an instrument signed by the Borrower stating the reason for such removal filed with the Tender Agent, the Trustee, the Credit Provider and the Issuer. The Trustee or the Credit Provider is authorized, with the prior written approval of the Issuer and the Credit Provider or the Trustee, as applicable, to remove the Tender Agent and appoint a successor. No removal of the Tender Agent will be effective until a successor Tender Agent has been appointed and has accepted such appointment. Failing such appointment by the Borrower prior to the effective date of the Tender Agent's resignation, the Credit Provider will have the right to appoint a successor Tender Agent acceptable to the Issuer. Any successor Tender Agent will be a trust company or bank having trust powers and in good standing, within or without the State. The provisions described in this paragraph will apply if the resignation of the Tender Agent is due to the fact that the Tender Agent no longer exists. In no event will the resignation or removal of the Tender Agent take effect prior to the date a successor Tender Agent has been appointed and is serving under the Indenture and the Tender Agent Agreement.

Supplemental Indentures; Amendments

Supplemental Indentures Not Requiring Bondholder Consent. The Issuer and the Trustee, without the consent of or notice to any Bondholder, may enter into an indenture or indentures supplemental to the Indenture for one or more of the following purposes:

- (a) to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture or in any supplemental indenture;
- (b) to amend, modify or supplement the Indenture in any respect if such amendment, modification or supplement is not materially adverse to the interests of the Bondholders;
- (c) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to grant or pledge to the Trustee for the benefit of the Bondholders any additional security other than that granted or pledged under the Indenture;
- (d) to modify, amend or supplement the Indenture in such manner as to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute then in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the States of the United States;

(e) to appoint a successor trustee, separate trustee or co-trustee, or a separate Tender Agent or Bond Registrar;

(f) to make any change requested by the Credit Provider which is not materially adverse to the interests of the Bondholders, including, but not limited to, provision of a Credit Facility other than or in substitution for the initial Credit Facility, provided that the provision of such other Credit Facility does not adversely affect the rating then in effect for the Bonds;

(g) to make any changes in the Indenture or in the terms of the Bonds necessary or desirable in order to maintain the then current rating awarded to the Bonds by the Rating Agency or otherwise to comply with requirements of any Rating Agency then rating the Bonds;

(h) to comply with the Code, the Act, the rules or policies of the Issuer and the regulations and rulings issued with respect to the Code, to the extent determined as necessary in an opinion of Bond Counsel;

(i) to modify, alter, amend or supplement the Indenture in any other respect, including amendments which would otherwise be described in the provisions of the Indenture governing supplemental indentures requiring Bondholder consent (as described in "Supplemental Indentures Requiring Bondholder Consent" below), (1) if such amendments will take effect on a Mandatory Tender Date following the purchase of Tendered Bonds or (2) if notice of the proposed supplemental indenture is given to Bondholders (in the same manner as notices of redemption are given) at least 30 days before the effective date of such amendment, modification, alteration or supplement and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture; and

(j) to change any of the time periods for provision of notice relating to the remarketing of Bonds or the determination of the interest rate on the Bonds.

If the Trustee has received written confirmation from the Rating Agency to the effect that such supplemental indenture will not result in the suspension, withdrawal or reduction of the then current rating on the Bonds and all conditions precedent in the Indenture have been satisfied, the Trustee will join the Issuer in the execution of any such supplemental indenture.

Supplemental Indentures Requiring Bondholder Consent. The Issuer and the Trustee may, with the consent of Bondholders owning not less than 51% in aggregate principal amount of Bonds then Outstanding, from time to time, execute indentures supplemental to the Indenture for the purpose of modifying, amending any of the provisions of the Indenture provided, however, that no terms of the Indenture described under this heading "Supplemental Indentures Requiring Bondholder Consent" permits, or will be construed as permitting:

(a) an extension of the maturity of the principal of or interest on, or the mandatory redemption date of, any Bond, without the consent of the owner of such Bond;

(b) a reduction in the principal amount of, or the rate of interest on, any Bond, without the consent of the owner of such Bond;

(c) a preference or priority of any Bond or Bonds over any other Bond or Bonds, without the consent of the owners of all such Bonds;

(d) the creation of a lien prior to or on parity with the lien of the Indenture, without the consent of the owners of all of the Bonds then Outstanding;

(e) a change in the percentage of Bondholders necessary to waive an Event of Default under the Indenture or otherwise approve matters requiring Bondholder approval under the Indenture, including consent to any supplemental indenture, without the consent of the owners of all the Bonds then Outstanding;

(f) a transfer, assignment or release of the Credit Facility (or modification of the provisions of the Indenture governing such transfer, assignment or release), other than as permitted by the Indenture or the Credit Facility, without the consent of the owners of all of the Bonds then Outstanding;

(g) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, without the consent of the holders of all of the Bonds then Outstanding;

(h) the creation of any lien other than a lien ratably securing all of the Bonds at any time Outstanding under the Indenture, without the consent of the holders of all of the Bonds then Outstanding; or

(i) the amendment of the provisions of the Indenture described under this heading "Supplemental Indentures Requiring Bondholder Consent," without the consent of the holders of all of the Bonds then Outstanding.

Notice of any amendment pursuant to the terms of the Indenture described above is to be given to the Bondholders promptly following the execution of such amendment.

No Bondholder Consent Required for Amendment to Loan Documents

Unless a Wrongful Dishonor has occurred and is continuing, the Credit Provider alone may consent to any amendment to the Loan Documents and no consent of the Bondholders is required; provided, however, that any amendment or substitution of the Note is to occur only following written confirmation of the Rating Agency that such amendment or substitution will not result in a reduction or withdrawal of the rating on the Bonds.

Amendments to the Credit Facility

The Credit Facility may only be amended, supplemented or otherwise changed in accordance with the following:

At the request of the Credit Provider, the Trustee will exchange the Credit Facility with the Credit Provider for a new Credit Facility (a "Replacement Credit Facility") issued by the Credit Provider, provided that there is delivered to the Trustee (i) a written confirmation from the Rating Agency to the effect that such exchange will not adversely affect the rating then in effect for the Bonds and (ii) a Favorable Opinion of Bond Counsel. No such exchange will require the approval of the Issuer, the Trustee or any of the Bondholders or constitute or require a modification or supplement to the Indenture.

The Trustee may consent, without the consent of the owners of the Bonds, to any amendment to the Credit Facility not otherwise addressed in the immediately preceding paragraph which does not prejudice

in any material respect the interest of the Bondholder. Except as otherwise described herein under the heading "Amendments to the Credit Facility," the Credit Facility may be amended only with the consent of the Trustee and the owners of a majority of all Outstanding Bonds. No amendment may be made to the Credit Facility which would reduce the amounts required to be paid under the Credit Facility or change the time for payment of such amounts; provided, however, that any such amounts may be reduced without such consent solely to the extent that such reduction represents a reduction in any fees payable from such amounts.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT

The following is a brief summary of certain provisions of the Financing Agreement that have not been described elsewhere in this Official Statement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Financing Agreement, a copy of which is on file with the Trustee.

The Loan

The Issuer has authorized the issuance of the Bonds in the aggregate principal amount of \$5,015,000. The Issuer has agreed to make the Loan in the amount of \$5,015,000 to the Borrower with the Net Bond Proceeds. Upon the issuance and delivery of the Bonds, the Issuer will deliver the Net Bond Proceeds to the Trustee. The Loan will be deemed made in full upon deposit of the Net Bond Proceeds into the Bond Proceeds Fund. The Borrower has accepted the Loan from the Issuer upon the terms and conditions set forth in the Financing Agreement and the Loan Documents, subject to the terms of the Indenture, the Regulatory Agreement and the Assignment. Disbursements will be made from the Bond Proceeds Fund as provided in the Indenture. The Borrower has agreed in the Financing Agreement to apply the proceeds of the Loan to affect the refunding of a portion of the Prior Bonds.

The Loan will be evidenced by, payable in accordance with, and bear interest at the rates and on the terms provided in, the Note and secured by the Security Instrument.

The Borrower has agreed to cause credit enhancement for the Loan or the Bonds and liquidity support for the Bonds to be in effect in the amounts and during the periods as required by the Indenture. From time to time, the Borrower may arrange for the delivery to the Trustee of one or more Alternate Credit Facilities meeting the requirements of the Indenture and the requirements of the Financing Agreement (set forth below) in substitution for the Credit Facility then in effect.

Payment of Fees, Costs and Expenses

The Borrower will pay when due, without duplication, the fees, expenses and other sums set forth below.

Fees Due at Closing. The Borrower will pay or provide for the payment of all Costs of Issuance and the Trustee's acceptance fee, if any, on the Closing Date.

Third Party Fees. The Borrower will pay the Third Party Fees on a monthly basis. Each monthly payment will be in an amount equal to the aggregate of all of the Third Party Fees prorated monthly so that the Trustee will have the full amount of each fee available in the Fees Account to pay each Third Party Fee as it becomes due without regard to whether any Third Party Fee is payable monthly, annually or on any other periodic basis. The Third Party Fees are as follows:

- (a) The Issuer Fees.
- (b) The Trustee's Annual Fee.

- (c) The Tender Agent's Annual Fee.
- (d) The Remarketing Agent's Fee.
- (e) The Rebate Analyst's Fee, if any.
- (f) The Asset Oversight Agent's Fee.

Fees and Expenses. The Borrower has agreed in the Financing Agreement to pay the following fees and expenses:

- (a) The annual rating maintenance fee of each Rating Agency.
- (b) The Extraordinary Items.
- (c) All advances, out-of-pocket expenses, costs and other charges of each of the Asset Oversight Agent, the Issuer, the Rebate Analyst, the Remarketing Agent, the Tender Agent and the Trustee incurred from time to time, but only to the extent that any such amounts are payable by the Borrower pursuant to an agreement between the Borrower and such Person regarding its services in connection with the Bonds or the Loan.
- (d) All costs of registering, printing, reprinting, preparing and delivering any replacement bonds required under the Indenture and in connection with the registration, printing, reprinting or transfer of Bonds.
- (e) All fees, costs and expenses of any change in Mode or of any tender, purchase, redemption, remarketing or reoffering of any Bonds. The fees, costs and expenses of any tender, purchase, remarketing or reoffering of Bonds must be paid by the Borrower in advance in accordance with the Remarketing Agreement or other agreement relating to the remarketing or reoffering of the Bonds.

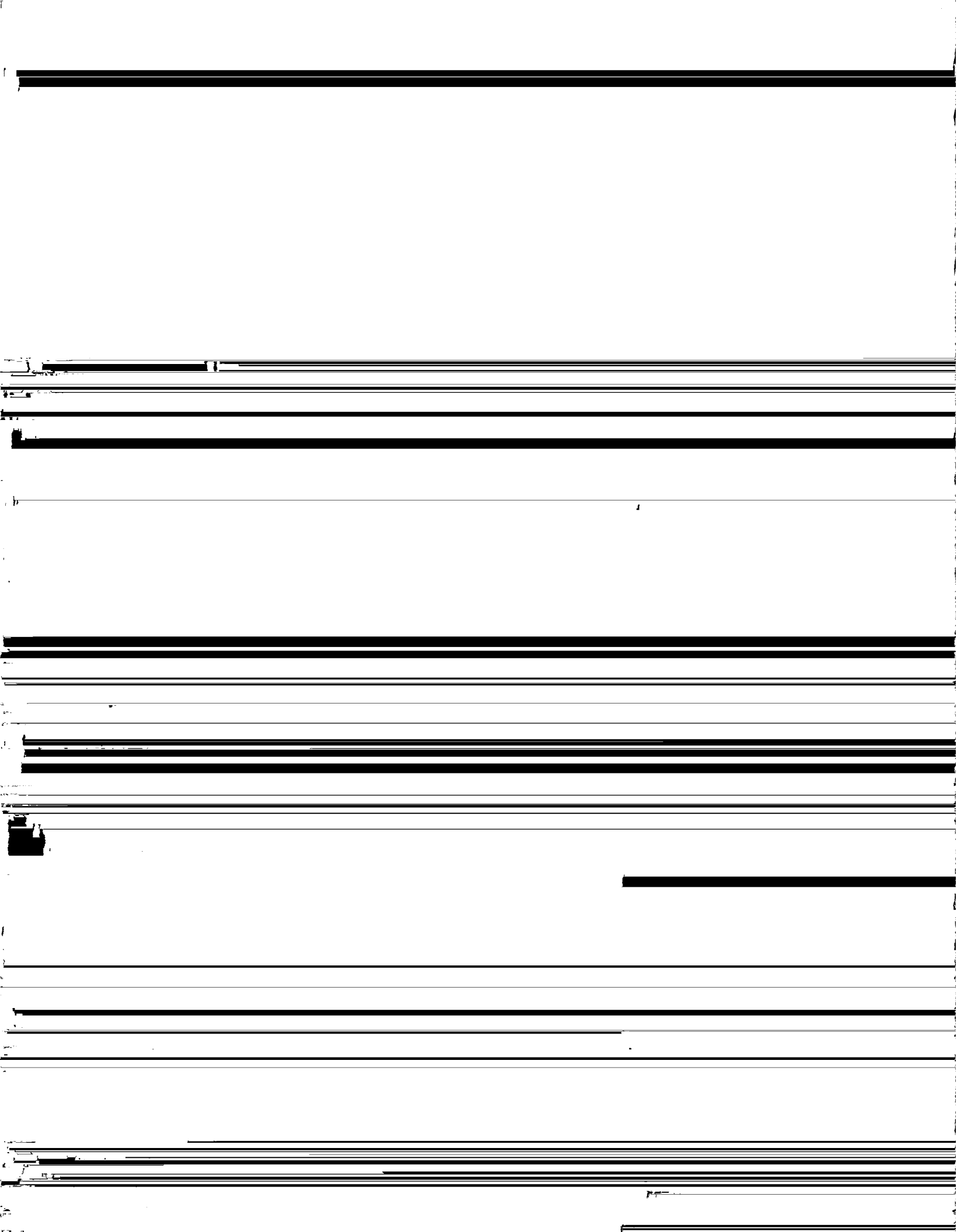
The Borrower has agreed to timely honor any demand for payment by the Trustee pursuant to the Indenture on account of any insufficiency in the Fees Account.

Borrower's Obligations upon Tender of Bonds

If any Tendered Bond is not remarketed on any Tender Date and a sufficient amount is not available in the Bond Purchase Fund for the purpose of paying the purchase price of such Bond, the Borrower will cause to be paid to the Trustee pursuant to the Credit Facility or otherwise pay by the applicable times provided in the Indenture, an amount equal to the principal amount of all Bonds tendered and not remarketed, together with interest accrued to the Tender Date.

Obligation of the Borrower to Pay Deficiencies

The Borrower will pay any deficiency resulting from any loss due to a default under any investment in any Fund or Account or a change in value of any investment.



Additional Charges

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

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

(b) Any and all extraordinary fees and expenses of the Issuer and of the Trustee incurred by or on behalf of either of them at any time related to the Development which are not paid from the amounts held under the Indenture, including, without limitation, legal fees and expenses incurred in connection with the interpretation, performance, enforcement or amendment of the Indenture, the transaction documents or any other documents relating to the Development or the Bonds or in connection with any federal or state tax audit or any questions or other matters arising under such documents. Such costs and expenses will include, without limitation, charges for title insurance (including endorsements), filing, recording and escrow charges, fees for appraisal, architectural and engineering review, construction services and environmental services, mortgage taxes, document review and preparation, expenses of legal counsel and any other fees and costs for services, regardless of whether such services are furnished by the Issuer's or Trustee's employees or agents or independent contractors. Amounts payable or reimbursable, as the case may be, as described under this heading, will include, but not be limited to, (i) all costs of printing any replacement Bonds required to be issued under the Indenture to the extent such costs are not paid by the holders and (ii) the fees and expenses of any experts retained by the Trustee and/or Issuer pursuant to the terms of the Indenture or any of the Transaction Documents.

(c) In accordance with the terms of the Financing Agreement, any Costs of Issuance in excess of amounts available in the Costs of Issuance Fund.

(d) In accordance with the terms of the Financing Agreement, the Rebate Amount to the extent that the funds available under the Indenture for the payment thereof are not sufficient or available therefor.

Covenants Regarding the Tax-Exempt Status of the Bonds

The Borrower will not take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on the Bonds from gross income, as defined in Section 61 of the Code, for federal income tax purposes. The Borrower agrees that, among other things:

(a) (i) During such time that an amount of Net Proceeds of Bonds that is less than 40% of the Sale Proceeds has been spent, then all of the Net Proceeds of the Bonds will have been applied to the payment of Qualified Project Costs that are costs of a "qualified residential rental project" (within the meaning of Sections 142(a)(7) and 142(d) of the Code) and property that is "functionally related and subordinate" thereto (within the meaning of Sections 1.103-8(a)(3) and 1.103-8(b)(4)(iii) of the Regulations) except for expenditures for Costs of Issuance, provided that amounts expended for Costs of Issuance do not exceed 2% of the Sale Proceeds. (ii) once an amount of Net Proceeds of the Bonds that is 40% or more than 40% of the Sale Proceeds has been spent, then at least 95% of the Net Proceeds of the Bonds and Proceeds of the Prior Bonds actually expended will be used to pay Qualified Project Costs that

are costs of a “qualified residential rental project” (within the meaning of Sections 142(a)(7) and 142(d) of the Code) and property that is “functionally related and subordinate” thereto (within the meaning of Sections 1.103-8(a)(3) and 1.103-8(b)(4)(iii) of the Regulations).

(b) Less than 25% of the net proceeds of the Prior Bonds actually expended were used, directly or indirectly, for the acquisition of land or an interest therein;

(c) No portion of the Proceeds of the Bonds, will be expended to pay Costs of Issuance of the Bonds within the meaning of Section 147(g) of the Code;

(d) The Borrower will not use or permit the use of any Proceeds of the Bonds or any income from the investment thereof to provide any airplane, skybox, or other private luxury box, health club facility, any facility primarily used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises;

(e) The Borrower will not take any action or omit to take any action with respect to the Gross Proceeds of the Bonds or of any amounts expected to be used to pay the principal thereof or the interest thereon which, if taken or omitted, respectively would cause any Bond to be classified as an “arbitrage bond” within the meaning of Section 148 of the Code. The Borrower has agreed that it will comply with all applicable requirements of Section 148(f) of the Code; and

(f) Except to the extent permitted by Section 149(b) of the Code and the Regulations and rulings thereunder, the Borrower will not take or omit to take any action which would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code and the Regulations and rulings thereunder.

Repairs and Maintenance Required by State Law; Physical Needs Assessment

The Borrower will submit to the Issuer, within 15 Business Days of receipt thereof, copies of the most recent “Physical Needs Assessment” required by the Fannie Mae Replacement Reserve Agreement (as defined in the Financing Agreement), any response by the Borrower to the Physical Needs Assessment, any repairs made in response to the Physical Needs Assessment, and, subject to the Replacement Reserve Agreement, information on any necessary adjustments to amounts held in the Replacement Reserve based on the Physical Needs Assessment.

The Borrower will maintain the Development and make repairs as specified in the Physical Needs Assessment and will otherwise comply with Section 2306.186(e) of the Texas Government Code.

Borrower’s Obligations

The Borrower has released the Issuer, the Trustee, the Tender Agent and their respective officers, directors, agents, officials, employees (and, as to the Issuer, members of its governing body) and any person who controls the Issuer, the Trustee or the Tender Agent within the meaning of the Securities Act of 1933, from, and has covenanted and agreed to indemnify, hold harmless and defend the Issuer, the Trustee, the Tender Agent and their respective officers, directors, employees, agents, members of its governing body, officials and any person who controls such party within the meaning of the Securities Act of 1933 and employees and each of them from and against, any and all losses, claims, demands, damages, liabilities and expenses (including attorneys’ fees and expenses), taxes, causes of action, suits

and judgments of any nature, joint or several, by or on behalf of any person arising out of certain events as further described in the Financing Agreement.

Events of Default and Remedies

Events of Default. The occurrence of any one or more of the following events will constitute an Event of Default under the Financing Agreement:

(a) The Borrower fails to pay when due any amount payable by the Borrower under the Financing Agreement.

(b) The Borrower fails to observe or perform any covenant or obligation in the Financing Agreement on its part to be observed or performed for a period of 30 days after receipt of written notice from the Trustee specifying such failure and requesting that it be remedied, provided, however, that if the failure cannot be corrected within such period, it will not constitute an Event of Default if the failure is correctable without material adverse effect on the validity or enforceability of the Bonds or on the exclusion from gross income, for federal income tax purposes, of the interest on the Bonds, and if corrective action is instituted by the Borrower within such period and diligently pursued until the failure is corrected, and provided further that any such failure is cured within 90 days of receipt of notice of such failure.

(c) The Credit Provider provides written notice to the Trustee of an Event of Default under the Financing Agreement by reason of the occurrence of an Event of Default under the Reimbursement Agreement. No Event of Default under the Reimbursement Agreement will constitute a default under the Financing Agreement unless specifically declared to be so by the Credit Provider.

(d) The Borrower fails to comply with the provisions described under “Repairs and Maintenance Required by State Law; Physical Needs Assessment,” as required by Section 2306.186 of the Texas Government Code, and fails to remedy such default or breach within thirty days after mailing of a notice to it by the Issuer.

Remedies upon an Event of Default. Subject to the Assignment, whenever any Event of Default occurs and is continuing under the Financing Agreement, the Issuer, or the Trustee acting on behalf of the Issuer, may take one or any combination of the following remedial steps:

(a) by written notice to the Borrower, declare all amounts then due and payable on the Note to be immediately due and payable;

(b) exercise any of the rights and remedies provided in the Loan Documents; and

(c) take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and afterward to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Financing Agreement.

No Levy or Other Execution against Development

Neither the Issuer nor the Trustee will have any right to levy, execute or enforce any judgment in respect of the Borrower’s obligations under the Financing Agreement, including the Reserved Rights,

against the Development or any other property of the Borrower that secures the obligations of the Borrower under the Loan or to the Credit Provider under any of the Credit Facility Documents.

Enforcement of Reserved Rights

Subject to the terms of the Regulatory Agreement and the Assignment, the Issuer, without the consent of the Trustee, but only after written notice to the Trustee, the Loan Servicer, the Credit Provider, and the Borrower, may take whatever action may appear necessary or desirable to specifically enforce the performance and observance of any of the Issuer's Reserved Rights, provided that the Issuer may not, without the prior written consent of the Trustee and the Credit Provider (a) terminate the Financing Agreement or cause the Loan to become due and payable or (b) cause the Trustee to declare the principal of all Bonds then Outstanding and the interest accrued on the Bonds to be immediately due and payable, or cause the Trustee to accelerate, foreclose or take any other action or seek other remedies under the Bond Documents, the Loan Documents or any other documents contemplated by the Financing Agreement or by such other documents to obtain such performance or observance. Nothing in the Financing Agreement will be interpreted as in any way limiting the ability of the Issuer from enforcing the provisions of the Regulatory Agreement.

Waiver and Annulment

Unless the Credit Provider otherwise consents in writing, neither the Issuer nor the Trustee may waive or annul any Event of Default under the Financing Agreement unless (a) all amounts that would then be payable under the Financing Agreement by the Borrower if such Event of Default had not occurred and was not continuing, are paid by or on behalf of the Borrower, and (b) the Borrower also performs all other obligations in respect of which it is then in default under the Financing Agreement and pays the charges and expenses of the Issuer and the Trustee, including attorneys' fees and expenses paid or incurred in connection with such default. No waiver or annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent on such Event of Default.

No Remedy Exclusive

All rights and remedies provided in the Financing Agreement are cumulative, nonexclusive and in addition to any and all rights and remedies that the Issuer and the Trustee may have or may be given by reason of any law, statute, ordinance or otherwise.

No Waiver

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

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT

The following is a brief summary of certain provisions of the Regulatory Agreement that have not been described elsewhere in this Official Statement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Regulatory Agreement, a copy of which is on file with the Trustee.

The Borrower will execute the Regulatory Agreement with respect to the Development. The Regulatory Agreement contains representations and covenants of the Borrower concerning the acquisition, construction, and equipping of the Development and the tax-exempt status of the Bonds that must be complied with continuously subsequent to the date of issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. For purposes of the Regulatory Agreement the following terms have the meanings set forth below.

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

“Costs of Issuance” means all items of expense related to the authorization, sale, issuance and delivery of the Bonds, as described in Section 147(g) of the Code including, without limitation, printing costs, costs of reproducing documents, counsel fees (including Bond Counsel, Trustee’s counsel, Issuer’s counsel, Borrower’s counsel, as well as any other specialized counsel fees incurred in connection with the issuance of the Bonds), initial Trustee fees and expenses with respect to the Bonds, any fee to the Issuer or expenses incurred by the Issuer that pays or reimburses the Issuer for direct and indirect costs of the Issuer related to the issuance of the Bonds, the expenses of the initial purchaser in acquiring the Bonds and legal fees and charges, financial advisory fees, placement agent’s fees and accountant fees related to issuance of the Bonds, costs of credit ratings, bond registrar and paying agent fees, title insurance fees, survey fees and recording and filing fees, including any applicable documentary stamp taxes, intangible tax and the mortgage registration tax, fees and charges for execution, transportation and safekeeping of Bonds, and charges and fees in connection with the foregoing.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Issue Price” means “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price (excluding to bond houses, brokers and similar persons or organizations acting in the capacity of wholesalers or underwriters) at which a substantial amount (at least 10 percent) of each maturity of Bonds is sold.

“Low-Income Unit” means a Unit that is included as a Unit satisfying the requirements of the Set Aside.

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

“Qualified Project Period” means, with respect to the Development, the period beginning on the first day on which 10% of the Units are occupied and ending on the latest of (i) the date that is 15 years after the date on which at least 50% of the Units in the Development are occupied, (ii) the first date on

which no tax-exempt private activity bond issued with respect to the Development is outstanding for federal income tax purposes, or (iii) the date on which any assistance provided with respect to the Development under Section 8 of the Housing Act terminates.

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

“*Sale Proceeds*” is defined in Section 1.148-1(b) of the Regulations and generally consists of any amounts actually or constructively received from the sale (or other disposition) of any Bond, including amounts used to pay underwriters’ discount, if any, or compensation and accrued interest other than pre-issuance accrued interest. Sale Proceeds also include amounts derived from the sale of a right that is associated with any Bond and that is described in Section 1.148-(b)(4) of the Regulations.

“*Set Aside*” means at least 40% of the Units (except for Units occupied or reserved for a resident manager or security or maintenance personnel that are functionally related and subordinate to the Development and are reasonably required for the Development).

“*State Restrictive Period*” means, with respect to the Development, the period beginning as of the date of the Regulatory Agreement and ending on the latest of (i) the date that is 30 years after the first day of the State Restrictive Period, (ii) the first date on which no tax-exempt private activity bond issued with respect to the Development is outstanding for federal income tax purposes, or (iii) the date on which any assistance provided with respect to the Development under Section 8 of the Housing Act terminates.

“*Tenant Income Certification*” means a certification as to income and other matters executed by the household members of each tenant in the Development, in accordance with the Regulatory Agreement.

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

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

Tax-Exempt Status of the Bonds

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

Qualified Residential Rental Project. The Borrower covenants and agrees that the Development will be operated as a “qualified residential rental project” within the meaning of Section 142(d) of the Code, on a continuous basis during the Qualified Project Period, to the end that the interest on the Bonds will be excluded from gross income for federal income tax purposes. In particular, the Borrower has covenanted and agreed, at all times during the Qualified Project Period, as follows:

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

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

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

(d) each Unit in the Development will contain complete facilities for living, sleeping, eating, cooking and sanitation, e.g., a living area, a sleeping area, bathing and sanitation facilities, and cooking facilities equipped with a cooking range, refrigerator and sink, all of which will be separate and distinct from other Units;

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

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

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

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

Further Covenants. The Borrower has represented, covenanted and agreed, continuously during the Qualified Project Period, that:

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

(b) to maintain complete and accurate records pertaining to Low-Income Tenants and file all documents, as required by Section 142(d) of the Code and the Regulatory Agreement, including tenant income certifications.

Housing Development During the State Restrictive Period

The Issuer and the Borrower have recognized and declared their understanding and intent that the Development is to be owned, managed and operated as a "housing development," as such term is defined in Section 2306.004(13) of the Act, and in compliance with applicable restrictions and limitations as provided in the Act and the rules of the Issuer, until the expiration of the State Restrictive Period. To the same end, the Borrower has represented, covenanted and agreed, among other things, as follows during the State Restrictive Period:

(a) except for Units occupied or reserved for a resident manager and maintenance and security personnel that are reasonably required for the Development, to assure that 100% of the Units are reserved for Eligible Tenants; provided that, in accordance with the Borrower's election under Section 1372.0321 of the Texas Government Code, 100% of the Units will be reserved for Low-Income Tenants; and

(b) to obtain a tenant income certification from each tenant at least annually after the tenant's initial occupancy and to prepare reports required by the Regulatory Agreement.

Maximum Allowable Rents

During the State Restrictive Period, the Borrower has represented, covenanted and agreed that in consideration for and as required by the reservation granted under Chapter 1372 of the Texas Government Code, as amended, the maximum rent charged by the Borrower for 100% of the Units will not exceed amounts provided in the Regulatory Agreement, which amounts will be annually redetermined by the Borrower, subject to review by the Issuer in connection with its ongoing compliance reviews and will not exceed for 100% of the Units, 30% of the income for a family whose income equals 60% of the Median Gross Income for the Area, minus an allowance for utility costs. Such allowances for utility costs will be determined by the procedures authorized under the federal low-income housing tax credit program.

Persons With Special Needs

The Borrower has represented, covenanted and warranted that (a) at least 5% of the Units within the Development have been designed to be accessible to Persons with Special Needs and hardware and

cabinetry will be stored on site or will be provided to be installed on an as needed basis in such Units and (b) during the State Restrictive Period it will use its best efforts (including giving preference to Persons with Special Needs) to: (i) make at least 5% of the Units within the Development available for occupancy by Persons with Special Needs, (ii) make reasonable accommodations for such persons. During the State Restrictive Period, the Borrower will maintain written policies regarding the Owner's outreach program and marketing program to Persons with Special Needs.

Default; Remedies

Upon a violation of any of the provisions of the Regulatory Agreement by the Borrower, the Trustee or the Issuer will give written notice thereof to the Borrower. If a violation of the Regulatory Agreement is not corrected by the Borrower to the satisfaction of the Trustee and the Issuer within the time and otherwise as provided in the Regulatory Agreement, without further notice the Issuer or the Trustee may declare a default under the Regulatory Agreement effective on the date of such declaration of default and upon such default the Issuer or the Trustee may bring action for specific performance to enforce the obligations of the Borrower under the Regulatory Agreement or by mandamus or other suit, action or proceeding at law or in equity, require the Borrower to perform its obligations and covenants under the Regulatory Agreement or enjoin any acts or things which may be lawful or in violation of the rights of the Issuer or Trustee thereunder or otherwise seek relief pursuant to the Regulatory Agreement.

Sale or Transfer of the Development or Change in General Partner

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

Term

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

The other terms of the Regulatory Agreement to the contrary notwithstanding, the requirements set forth therein will terminate, without the requirement of any consent by the Issuer or the Trustee, and be of no further force and effect in the event of involuntary noncompliance with the provisions of the Regulatory Agreement caused by fire, seizure, requisition, change in a federal or Texas law or an action of a federal agency after the Closing Date which prevents the Issuer or the Trustee from enforcing the

provisions thereof, or foreclosure or transfer of title by deed in lieu of foreclosure or other similar involuntary transfer, condemnation or a similar event, but only if, within a reasonable period thereafter, either the Bonds are retired in full or amounts received as a consequence of such event are used to provide a qualified residential rental project which meets the requirements of the Code and Texas law set forth in the Regulatory Agreement. The provisions of the preceding sentence will cease to apply and the requirements referred to therein will be reinstated if, at any time during the Qualified Project Period, after the termination of such requirements as a result of involuntary noncompliance due to foreclosure, transfer of title by deed in lieu of foreclosure or similar event, the Borrower or any Related Person obtains an ownership interest in the Development for federal income tax purposes.

Pursuant to the Fannie Mae Rider (see "Fannie Mae Rider" below), the Regulatory Agreement may be terminated upon agreement by the Issuer, the Trustee, the Credit Provider and the Borrower upon receipt of an opinion of Bond Counsel acceptable to the Trustee that such termination will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Fannie Mae Rider

A Fannie Mae Rider is attached to and forms a part of the Regulatory Agreement and in certain circumstances, specific terms of the Regulatory Agreement may be subordinate to the Fannie Mae Rider. The Fannie Mae Rider provides that upon any default by the Borrower under the Regulatory Agreement, the Issuer or the Trustee may seek specific performance of the obligations of the Borrower under the Regulatory Agreement and injunctive relief against acts which may be in violation of the Regulatory Agreement or otherwise unlawful; provided, however, the Issuer or the Trustee may enforce any right it may have under the Regulatory Agreement for monetary damages only against certain funds of the Borrower.

The Regulatory Agreement will not constitute a mortgage, equitable mortgage, deed of trust, deed to secure debt or other lien or security interest in the Mortgaged Property. None of the obligations of the Borrower or any subsequent owner of the Mortgaged Property under the Regulatory Agreement will be secured by a lien on, or security interest in, the Mortgaged Property. All such obligations are expressly intended to be and will remain unsecured obligations. No subsequent owner of the Development will be liable or obligated for the breach or default of any obligation of any prior owner. Such obligations are to be personal to the person who was the owner at the time the default or breach was alleged to have occurred and such person is to remain liable for any and all damages occasioned by the default or breach even after such person ceases to be the owner of the Development.

APPENDIX E

FORM OF DIRECT PAY
IRREVOCABLE TRANSFERABLE
CREDIT ENHANCEMENT INSTRUMENT

(Red Hills Villas)

September 14, 2006

U.S. \$5,076,074.00

Relating to Loan No. _____

Wells Fargo Bank, National Association, as Trustee
1000 Louisiana Street, Suite 640
MAC T5001-061
Houston, TX 77002

At the request of South Creek Housing, Ltd., a Texas limited partnership ("**Borrower**"), Fannie Mae ("**Fannie Mae**") issues this direct pay irrevocable, transferable Credit Enhancement Instrument ("**Credit Enhancement Instrument**") to Wells Fargo Bank, National Association ("**Trustee**"), not in its individual or corporate capacity but solely as Trustee for the owners of \$5,015,000 aggregate principal amount of the Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006 ("**Bonds**") issued pursuant to the Trust Indenture ("**Indenture**") dated as of September 1, 2006 between the Texas Department of Housing and Community Affairs ("**Issuer**") and the Trustee.

1. **Definitions.** Capitalized terms used in this Credit Enhancement Instrument have the meanings given to those terms in this Section 1 or elsewhere in this Credit Enhancement Instrument.

"**Advance**" means a Debt Service Advance, an Issuer's Fee Advance, a Liquidity Advance or a Mandatory Tender Advance.

"**Affiliate**" as applied to any person, means any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, partnership interests or by contract or otherwise.

"**Amount Available**" has the meaning given that term in Section 2.

"**Business Day**" means any day other than:

- (a) a Saturday or a Sunday;
- (b) any day on which banking institutions located in the City of New York, New York are required or authorized by law or executive order to close;

(c) any day on which banking institutions located in the city or cities in which the Designated Office (as that term is defined in the Indenture) of the Trustee or the Loan Servicer is located are required or authorized by law or executive order to close;

(d) prior to the date upon which the interest rate on the Bonds adjusts to a fixed rate mode, a day on which the New York Stock Exchange is closed or on which banking institutions located in the city in which the Remarketing Agent is located are required or authorized by law or executive order to close; or

(e) any day on which Fannie Mae is closed.

“CEI Expiration Date” means the date on which this Credit Enhancement Instrument expires in accordance with Section 9(a).

“CEI Termination Date” means the date on which this Credit Enhancement Instrument terminates in accordance with Section 9(b).

“Certificate” means any certificate in the form attached to this Credit Enhancement Instrument as an Exhibit or such other form as provided in Section 3. If the certificate is submitted to Fannie Mae by personal delivery or by telecopy, the certificate must be signed by one who purports to be an authorized signatory of the Trustee. If the certificate is submitted to Fannie Mae in any other medium (such as e-mail or a web based medium), the certificate must be authenticated as provided in the related Presentation Protocol.

“Credit Enhancement Advance” means a Debt Service Advance, an Issuer’s Fee Advance or a Mandatory Tender Advance.

“Credit Enhancement Expiration Date” means, subject to Section 7(c), the date the obligation of Fannie Mae to make Credit Enhancement Advances expires as provided in Section 7(a), if not earlier terminated.

“Credit Enhancement Instrument” means this Credit Enhancement Instrument as the same may be amended, supplemented or restated from time to time, dated the Closing Date issued by Fannie Mae to the Trustee.

“Credit Enhancement Termination Date” means, subject to Section 7(c), the date on which the obligation of Fannie Mae to make Credit Enhancement Advances terminates as provided in Section 7(b).

“Debt Service Advance” has the meaning given that term in Section 3.

“Excluded Bond” means any Bond which is not Outstanding (as that term is defined in the Indenture), any Bond registered in the name of or otherwise owned, directly or indirectly, by the Borrower or any Affiliate of the Borrower or any Pledged Bond.

“Interest Portion” has the meaning given that term in Section 2.

“Issuer’s Fee” means the regularly scheduled annual fee of the Issuer equal to 10 basis points of the outstanding principal amount of the Bonds.

“Issuer’s Fee Advance” has the meaning given that term in Section 3.

“Issuer’s Fee Portion” has the meaning given that term in Section 2.

“Liquidity Advance” has the meaning given that term in Section 3.

“Liquidity Expiration Date” means, subject to Sections 8(b), (c) and (e), the date the obligation of Fannie Mae to make Liquidity Advances expires as provided in Section 8(a), if not earlier terminated.

“Liquidity Termination Date” means, subject to Section 8(e), the date on which the obligation of Fannie Mae to make Liquidity Advances terminates as provided in Section 8(d).

“Loan” means the mortgage loan made by the Issuer to the Borrower pursuant to the Financing Agreement for the purpose of providing funds to the Borrower to repay the Prior Loan and cause the refunding of the Prior Bonds.

“Loan Servicer” means initially CharterMac Mortgage Capital Corporation or any other entity approved by Fannie Mae in its discretion as the servicer of the Loan, and any permitted successors or assigns.

“Mandatory Tender” means any tender of Bonds required by Section 4.2(a) or (b) of the Indenture.

“Mandatory Tender Advance” has the meaning given that term in Section 3.

“Maturity Date” means September 15, 2036 or in the event the Bonds are adjusted to the Fixed Rate Mode and a Sinking Fund Schedule is established, the stated maturity date of any Bonds.

“Note” means the Multifamily Note (together with all addenda thereto) dated as of September 1, 2006, executed by the Borrower in favor of the Issuer, as the same may be amended, supplemented or restated from time to time or any mortgage note executed in substitution therefor in accordance with the terms of the Bond Documents, as such substitute note may be amended, supplemented or restated from time to time.

“Optional Tender” means any optional tender of any Bond pursuant to Section 4.1(a) of the Indenture.

“Pledged Bond” means any Bond during the period from and including the date of its purchase by the Trustee on behalf of and as agent for the Borrower with the proceeds of a Liquidity Advance, to, but excluding, the date on which the Liquidity Advance made by the Credit Provider on account of such Pledged Bond is reinstated under this Credit Enhancement Instrument.

“Presentation Protocol” means an agreement between Fannie Mae and the Trustee regarding one or more media through which the Trustee may present Certificates to Fannie Mae under this Credit Enhancement Instrument, as such agreement may be amended, supplemented or restated from time to time.

“Principal Portion” has the meaning given that term in Section 2.

“Reimbursement Agreement” means the Reimbursement Agreement, dated as of September 1, 2006, between Fannie Mae and the Borrower, as such agreement may be amended, supplemented or restated from time to time.

“**Remarketing Agent**” means the remarketing agent under the Indenture.

“**Reset Rate**” means the rate of interest borne by the Bonds as determined in accordance with Section 2.6 of the Indenture.

“**Tender Agent**” means the tender agent under the Indenture.

“**Trustee**” means Wells Fargo Bank, National Association, a national banking association duly organized and validly existing under the laws of the United States of America, not in its individual or corporate capacity, but solely as trustee under the Indenture, or any permitted successor trustee under the Indenture.

“**Weekly Variable Rate**” means the variable rate of interest per annum for the Bonds determined from time to time during the Weekly Variable Rate Period (as that term is defined in the Indenture) in accordance with the Indenture.

2. **Amount Available.** Subject to the terms and conditions of this Credit Enhancement Instrument, Fannie Mae irrevocably authorizes the Trustee to draw on Fannie Mae, from time to time, a maximum aggregate amount not exceeding \$5,076,074 (as such amount may be reduced or reinstated from time to time in accordance with Section 10, “**Amount Available**”), of which:

(a) up to \$5,015,000 (“**Principal Portion**”) may be drawn with respect to the unpaid principal of the Bonds or, as the case may be, the principal portion of the purchase price of the Bonds;

(b) up to \$56,059 (“**Interest Portion**”), or 34 days interest on the Bonds (calculated at an assumed rate on the Bonds of 12% per annum on the basis of a year of 365 days), may be drawn with respect to interest actually accrued on the Bonds or, as the case may be, the interest portion of the purchase price of the Bonds; and

(c) up to \$5,015 (“**Issuer’s Fee Portion**”) may be drawn with respect to the Issuer’s Fee.

3. **Advances.** Each demand for an Advance shall be made by the Trustee’s presentation to Fannie Mae of a Certificate as follows:

(a) **Credit Enhancement Advances.** Credit Enhancement Advances shall be in the form of:

(1) **Debt Service Advance.** Exhibit A to pay (i) principal of any Bond (other than Excluded Bonds) due as a result of acceleration, defeasance, redemption, stated maturity and/or (ii) interest on any Bond (other than Excluded Bonds) on or prior to their stated maturity date (“**Debt Service Advance**”); or

(2) **Mandatory Tender Advance.** Exhibit B to pay principal of, plus accrued interest on, any Bond (other than Excluded Bonds) due as a result of a Mandatory Tender (“**Mandatory Tender Advance**”); and

(3) **Issuer’s Fee Advance.** Exhibit C to pay the Issuer’s Fee if not paid when due (“**Issuer’s Fee Advance**”); or

(b) **Liquidity Advances.** Liquidity Advances shall be in the form of Exhibit D to pay principal of, plus accrued interest on, any Bond subject to an Optional Tender (“**Liquidity Advance**”).

Any Certificate submitted to Fannie Mae by the Trustee shall have all blanks appropriately completed, applicable boxes checked and shall be signed by one who states therein that he or she is an authorized signatory of the Trustee. Fannie Mae's obligation to honor any demand for an Issuer's Fee Advance is a standby obligation, payable if the Issuer's Fee is not otherwise paid, and Fannie Mae's obligation to honor any demand for all other Advances is a direct pay obligation, without regard to whether the Borrower has made any such payment.

Neither demands for, nor Advances, may be made under this Credit Enhancement Instrument to pay (i) principal of, interest on or the purchase price of, any Excluded Bond, (ii) premium that may be payable upon the redemption of any of the Bonds or (iii) interest that may accrue on any of the Bonds on or after the maturity of such Bond.

Fannie Mae may amend the form of any Certificate or delete any of the information, statements and certifications set out in the form of any Certificate to accommodate the sending of such Certificate by a medium pursuant to a Presentation Protocol. No such amendment may (i) require any additional information, statement or certification than that required by such form of certificate attached to this Credit Enhancement Instrument on the date of issuance, (ii) modify the timing for the presentation of such Certificate, and the payment thereof or (iii) require personal delivery with respect to the presentation of any Certificate with respect to which payment is to be made on the same Business Day.

4. **Presentation of Certificates.** Each Certificate must be given to Fannie Mae by:

(a) personal delivery at 3900 Wisconsin Avenue, Washington, D.C. 20016, Attention: Director, Multifamily Operations - Direct Pay Bonds; or

(b) telecopy to phone number (301) 280-2042, immediately followed by telephonic notice to the Director, Multifamily Operations - Direct Pay Bonds at telephone number (301) 204-8422; or

(c) such other medium as Fannie Mae and the Trustee may agree in a Presentation Protocol from time to time.

A Presentation Protocol may provide that the Trustee may not submit a Certificate by telecopy after a stated date or may only submit Certificates by telecopy after a certain date with the prior written permission of Fannie Mae, in which case subsection (b) shall be automatically deemed amended to that effect.

Fannie Mae will notify the Trustee in writing of any change in address or telecopy number to which all Certificates must be delivered or of any change relating to the person to be called for telephonic notices confirming telecopy communications. Any such written notice shall be effective upon receipt by the Trustee.

5. **Fannie Mae's Engagement.** Upon due receipt by Fannie Mae of a Certificate conforming to the terms and conditions of this Credit Enhancement Instrument, Fannie Mae will honor payment of the amount specified in such Certificate if presented as specified below:

(a) If a presentation in respect of a Debt Service Advance is made on or before the earlier of the Credit Enhancement Expiration Date or the Credit Enhancement Termination Date:

(1) at or prior to 12:00 noon Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time on the next following Business Day.

(2) after 12:00 noon Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time on the second following Business Day.

(b) If a presentation in respect of a Mandatory Tender Advance is made on or before the earlier of the Credit Enhancement Expiration Date or the Credit Enhancement Termination Date; and

(1) the Advance relates to a Mandatory Tender pursuant to Section 4.2(b) of the Indenture:

(w) at or prior to 12:00 noon Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time **on the next following Business Day.**

(x) after 12:00 noon Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time on the second following Business Day.

(2) the Advance relates to a Mandatory Tender pursuant to Section 4.2(a) of the Indenture:

(y) at or prior to 10:30 a.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:30 p.m. Eastern time **on the same Business Day.**

(z) after 10:30 a.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:30 p.m. Eastern time on the next following Business Day.

(c) If a presentation in respect of a Liquidity Advance is made on or before the earlier of the Liquidity Expiration Date or the Liquidity Termination Date:

(1) at or prior to 10:30 a.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:30 p.m. Eastern time on the same Business Day.

(2) after 10:30 a.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:30 p.m. Eastern time on the next following Business Day.

(d) If a presentation in respect of an Issuer's Fee Advance is made on or before the earlier of the Credit Enhancement Expiration Date or the Credit Enhancement Termination Date:

(1) at or prior to 5:00 p.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time on the fifth Business Day following such presentation.

(2) after 5:00 p.m. Eastern time on a Business Day, payment shall be made to the Trustee in the amount specified no later than 1:00 p.m. Eastern time on the sixth Business Day following such presentation.

All Advances made under this Credit Enhancement Instrument will be made with Fannie Mae's own funds in immediately available funds.

6. **Nonconforming Tender.** If a demand for payment under this Credit Enhancement Instrument made by the Trustee does not conform to the terms and conditions of this Credit Enhancement Instrument, Fannie Mae will notify the Trustee of such lack of conformity within a reasonable time after delivery of such demand for payment, such notice to be promptly confirmed in writing to the Trustee, and Fannie Mae shall hold all documents at the Trustee's disposal or, at the Trustee's option, return the same to the Trustee.

7. **Expiration and Termination: Credit Enhancement Advances.**

(a) **Credit Enhancement Expiration.** Subject to subparagraph (c), the obligation of Fannie Mae to make Credit Enhancement Advances under this Credit Enhancement Instrument shall expire at 4:00 p.m. Eastern time on September 21, 2036 ("**Credit Enhancement Expiration Date**").

(b) **Termination Before Credit Enhancement Expiration Date.** Subject to subparagraph (c), the obligation of Fannie Mae to make Credit Enhancement Advances under this Credit Enhancement Instrument shall automatically terminate prior to the Credit Enhancement Expiration Date on the first to occur of: (i) the honoring by Fannie Mae of an Advance which automatically and permanently reduces the Principal Portion to zero, (ii) 4:00 p.m. Eastern time on the day following the last day of any period during which the Bonds bear interest at a Reset Rate unless Fannie Mae has notified the Trustee prior to such date that it elects to waive such termination, and (iii) Fannie Mae's receipt of a Certificate in the form of Exhibit E (which shall be conclusive evidence of the matters set forth therein). The date determined in the preceding sentence is the "**Credit Enhancement Termination Date.**"

(c) **Business Day Convention.** In the event that any date on which the Credit Enhancement Expiration Date or the Credit Enhancement Termination Date would otherwise occur is not a Business Day, such date shall be 4:00 p.m. Eastern time on the next following Business Day.

8. **Expiration and Termination: Liquidity Advances.**

(a) **Liquidity Expiration.** Subject to subparagraph (e), the obligation of Fannie Mae to make Liquidity Advances under this Credit Enhancement Instrument shall expire on the first to occur of (i) 4:00 p.m. Eastern time on September 14, 2016 or such later date as is deemed to be the Liquidity Expiration Date pursuant to subsection (b) and (ii) the Credit Enhancement Expiration Date ("**Liquidity Expiration Date**").

(b) **Automatic Extensions of Liquidity Expiration Date.** Subject to subsection (c), the Liquidity Expiration Date automatically will be deemed extended by one additional calendar year on each September 14th (beginning with September 14, 2007). Any automatic extension which would extend the Liquidity Expiration Date beyond the Maturity Date will only extend the Liquidity Expiration Date to (and including) the Maturity Date.

(c) **No Further Automatic Extensions of Liquidity Expiration Date.** Subsection (b) shall cease to be effective from and after the first to occur of:

- (1) the Liquidity Termination Date;
- (2) the Credit Enhancement Expiration Date;

(3) the Maturity Date; and

(4) the sending of written notice to the Trustee by Fannie Mae to the effect that subsection (b) shall cease to be effective from and after the sending of such notice in which case the then outstanding Liquidity Expiration Date shall remain unchanged and no further extension of the Liquidity Expiration Date will occur under subsection (b).

(d) **Liquidity Termination Before Liquidity Expiration Date.** Subject to subparagraph (e), the obligation of Fannie Mae to make Liquidity Advances under this Credit Enhancement Instrument shall automatically terminate prior to the Liquidity Expiration Date on the first to occur of: (i) the honoring by Fannie Mae of an Advance which automatically and permanently reduces the Principal Portion to zero, (ii) 4:00 p.m. Eastern time on the second day following the last day of any period during which the Bonds bear interest at a Weekly Variable Rate, (iii) Fannie Mae's receipt of a Certificate in the form of Exhibit E (which shall be conclusive evidence of the matters set forth therein) and (iv) the Credit Enhancement Termination Date. The date determined in the preceding sentence is the "**Liquidity Termination Date.**"

(e) **Business Day Convention.** In the event that any date on which the Liquidity Expiration Date or the Liquidity Termination Date would otherwise occur is not a Business Day, such date shall be 4:00 p.m. Eastern time on the next following Business Day.

9. Expiration and Termination: Credit Enhancement Instrument.

(a) **Expiration.** This Credit Enhancement Instrument shall expire upon the later of the Credit Enhancement Expiration Date and the Liquidity Expiration Date ("**CEI Expiration Date**").

(b) **Termination Before CEI Expiration Date.** This Credit Enhancement Instrument shall automatically terminate prior to the CEI Expiration Date on the later to occur of the Credit Enhancement Termination Date and the Liquidity Termination Date ("**CEI Termination Date**").

(c) **Delivery.** Upon the CEI Expiration Date or the CEI Termination Date, whichever first occurs, the Trustee shall deliver this Credit Enhancement Instrument to Fannie Mae for cancellation.

10. Reduction and Reinstatement of Amount Available. The Amount Available shall be reduced or reinstated from time to time in accordance with this Section.

(a) **Automatic Reduction on Making any Advance.** The Amount Available shall be reduced automatically by the amount of each Advance paid by Fannie Mae, notwithstanding any act or omission, whether authorized or unauthorized, of the Trustee or any officer, director, employee or agent of the Trustee in connection with any Advance or the proceeds of such Advance or otherwise in connection with this Credit Enhancement Instrument. Each reduction shall be permanent or subject to reinstatement as provided in this Section. Such reduction shall be applied to the Principal Portion, Interest Portion and Issuer's Fee Portion as appropriate for the Advance to which the reduction relates.

(b) **Permanent Reduction for Principal Component of Debt Service Advance.** The Principal Portion, Interest Portion and Issuer's Fee Portion shall be reduced automatically and permanently upon the making of any Debt Service Advance as follows:

(1) the Principal Portion will be reduced by the amount of the principal component of the Debt Service Advance;

(2) the Interest Portion will be reduced by an amount equal to 34 days of interest (calculated at the rate of 12% per annum on the basis of a year of 365 days) on the amount of the related permanent reduction of the Principal Portion; and

(3) the Issuer's Fee Portion will be reduced in an amount equal to 0.001% multiplied by the amount of the related permanent reduction of the Principal Portion.

(c) **Permanent Reduction on Notice from the Trustee.** The Amount Available shall be reduced automatically by the amounts specified in any Certificate in the form of Exhibit F which is delivered to Fannie Mae. Such reduction shall be applied to the Principal Portion, Interest Portion and Issuer's Fee Portion as set out in the Certificate.

(d) **Reinstatement of Interest Portion for Debt Service Advance.** Except for a permanent reduction of the Interest Portion under subsection (b)(2), the amount of the Interest Portion reduced by the interest component of a Debt Service Advance shall be reinstated immediately and automatically.

(e) **Reinstatement of Liquidity Advance and Mandatory Tender Advance.** The Principal Portion and the Interest Portion shall be reinstated after each Liquidity Advance and each Mandatory Tender Advance upon receipt by Fannie Mae of money equal to the amount by which the Trustee requests Fannie Mae to increase the Principal Portion and the Interest Portion in a Certificate of Reinstatement in the form of Exhibit G.

(f) **Reinstatement of Issuer's Fee Advance.** Except for a permanent reduction of the Issuer's Fee Portion under subsection (b)(3), the amount of the Issuer's Fee Portion reduced by an Issuer's Fee Advance shall be reinstated immediately and automatically.

Upon any permanent reduction of the Amount Available, Fannie Mae may deliver to the Trustee a substitute Credit Enhancement Instrument in exchange for this Credit Enhancement Instrument, in an amount available equal to the then current Amount Available, but otherwise having terms identical to this Credit Enhancement Instrument.

11. **Discharge of Obligations.** Only the Trustee may demand an Advance under this Credit Enhancement Instrument. Upon payment to the Trustee of the amount specified in any Certificate presented under this Credit Enhancement Instrument, Fannie Mae shall be fully discharged of its obligation under this Credit Enhancement Instrument with respect to such Certificate and Fannie Mae shall not thereafter be obligated to make any further payment to the Trustee or any other person (including the Issuer, with respect to payment of the Issuer's Fee) in respect of such Certificate for payment of principal of, purchase price of, or interest on any Bond, or payment of the Issuer's Fee.

12. **Nature of Fannie Mae's Obligations.** Fannie Mae's obligation to make Advances to the Trustee upon the proper presentation of documents which conform to the terms and conditions of this Credit Enhancement Instrument is absolute, unconditional and irrevocable, shall be fulfilled strictly in accordance with this Credit Enhancement Instrument, and shall not be affected by any right of set-off, recoupment or counterclaim Fannie Mae might otherwise have against the Issuer, the Trustee, the Tender Agent, the Remarketing Agent, the Borrower, the Loan Servicer or any other person.

Fannie Mae's obligations under this Credit Enhancement Instrument are primary obligations and shall not be affected by the performance or non-performance by the Issuer under the Indenture or the Bonds or by the Borrower under the Note or the Reimbursement Agreement or by the performance or non-performance of any party under any other agreement between or among any of the Issuer, the Trustee, the Borrower or Fannie Mae.

13. **Transfer.** This Credit Enhancement Instrument may be successively transferred in whole only to each successor Trustee under the Indenture. Any such transfer shall be effective upon receipt by Fannie Mae of a signed copy of the instrument effecting such transfer signed by the transferor and by the transferee in the form attached as Exhibit H (which shall be conclusive evidence of such transfer). In each such case, the transferee instead of the transferor shall, without the necessity of further action, be entitled to all the benefits of and rights under this Credit Enhancement Instrument in the transferor's place.

14. **Notices and Deliveries.** All documents, notices and other communications, other than Certificates, shall be in writing and personally delivered to Fannie Mae at the address (and to the attention of the party) set out in Section 4(a) or may be sent to Fannie Mae by telecopy immediately followed by telephonic notice as set out in Section 4(b), as such address, telephone and telecopy numbers and parties to whom such notices are sent are changed by Fannie Mae pursuant to Section 4.

15. **Governing Law.** This Credit Enhancement Instrument shall be governed by the laws of the District of Columbia, including the Uniform Commercial Code as in effect in the District of Columbia.

Remainder of page is intentionally blank.

16. **Entire Credit Enhancement Instrument.** This Credit Enhancement Instrument sets forth in full the terms of Fannie Mae's undertaking and shall not in any way be amended, amplified or limited by reference to any document, instrument or agreement referred to in this Credit Enhancement Instrument (including, without limitation, the Bonds) or in which this Credit Enhancement Instrument is referred to or to which this Credit Enhancement Instrument relates, except for (i) the Exhibits referred to in this Credit Enhancement Instrument and (ii) any Presentation Protocol, all of which shall be deemed fully incorporated into this Credit Enhancement Instrument as if fully set forth herein.

FANNIE MAE

By: _____
Name: _____
Title _____

Exhibit A

CERTIFICATE FOR "DEBT SERVICE ADVANCE"

DIRECT PAY

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ ("**Credit Enhancement Instrument**")
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below ("**Trustee**"), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, that:

(1) **Demand for Advance.** The Trustee demands an Advance in the amount of \$_____. This demand is composed of:

(Trustee: check applicable box or boxes)

Interest: \$_____ under the Interest Portion of the Amount Available to be used to pay interest on the Bonds (other than Excluded Bonds) on or prior to their stated maturity date.

Principal: \$_____ under the Principal Portion of the Amount Available to be used to pay principal of the Bonds due as a result of the acceleration, defeasance, redemption, or stated maturity of the Bonds.

(2) **When the Advance Must be Made.** If this demand for Advance is made:

(a) at or prior to 12:00 noon Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time on the next following Business Day.

(b) after 12:00 noon Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time on the second following Business Day.

(3) **Where the Advance Must be Made.** Please pay the Advance demanded by this Certificate to the Trustee at _____ [specify account].

(4) **Other Matters.**

(a) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(b) Upon receipt by the Trustee of the Advance, (i) the Trustee will apply the same directly for the purpose specified in Paragraph 1, and (ii) no portion of said amount shall be applied by the Trustee for any purpose other than as set forth in Paragraph 1.

(c) The proceeds of the Advance demanded by this Certificate will not be applied to defease, redeem or pay (whether at stated maturity or by acceleration) any Excluded Bond.

(d) The aggregate principal amount of all Excluded Bonds outstanding is \$_____.

(e) The amount of interest (computed at the Maximum Interest Rate (as that term is defined in the Indenture), which currently is _____* percent per annum) on the basis of the actual number of days elapsed over a year of 365 or 366 days, as applicable), accruing on the Bonds referred to in subparagraph 4(d) above in any period of _____** days is \$_____.

(5) **Amount Available.** (Trustee: Complete this Paragraph 5 only if this Certificate requests an Advance under the Principal Portion of the Amount Available.) Upon the payment of the Advance:

(a) The Amount Available shall be reduced automatically and permanently by \$(insert amount of reduction) of which:

(i) \$_____ is attributable to the Principal Portion; [and]

(ii) \$_____ is attributable to the Interest Portion[.]; and]

[(iii) \$_____ is attributable to the Issuer's Fee Portion (computed at a rate of 0._____% multiplied by the [original] [outstanding] principal amount of the Bonds).]

(b) **New Amount Available.** The Amount Available will be \$_____, of which:

(i) \$_____ will be the Principal Portion; and

(ii) \$_____ will be the Interest Portion; and

(iii) \$_____ will be the Issuer's Fee Portion (computed at a rate of 0._____% multiplied by the [original] [outstanding] principal amount of the Bonds).

(c) The principal of the Bonds (other than Excluded Bonds) that is due on [Trustee: complete this blank using the first Business Day after the date of this Certificate] is \$_____. The amount of the Advance demanded in Paragraph 1 does not exceed such amount of principal.

(d) The amount of the Advance (1) does not exceed the Principal Portion of the Amount Available on the date of this Certificate and (2) was computed in accordance with the Bonds and the Indenture.

(e) Upon the payment referred to in Paragraph (1), the aggregate principal amount of all Bonds outstanding will be \$_____.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

* Trustee: Fill in current Maximum Interest Rate.

** Trustee: Fill in number of days of interest coverage required to be supplied by the Interest Portion.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____.

_____ as Trustee

By: _____
Authorized Signatory

Exhibit B

CERTIFICATE FOR "MANDATORY TENDER ADVANCE"

DIRECT PAY

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ ("**Credit Enhancement Instrument**")
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below ("**Trustee**"), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, that:

(1) **Demand for Advance.** The Trustee demands an Advance in the amount of \$_____. This demand is composed of:

(a) **Interest:** \$_____ under the Interest Portion of the Amount Available to be used to pay interest on the Bonds (other than Excluded Bonds) on or prior to their stated maturity date.

(b) **Principal:** \$_____ under the Principal Portion of the Amount Available to be used to pay principal of the Bonds due as a result of a Mandatory Tender.

(2) **When the Advance Must be Made.** (Trustee: check applicable box)

The Advance relates to a Mandatory Tender pursuant to Section 4.2(b) of the Indenture. Accordingly, if this demand for Advance is made:

(w) at or prior to 12:00 noon Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time **on the next following Business Day.**

(x) after 12:00 noon Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time on the second following Business Day.

The Advance relates to a Mandatory Tender pursuant to Section 4.2(a) of the Indenture. Accordingly, if this demand for Advance is made:

(y) at or prior to 10:30 a.m. Eastern time on a Business Day, you must pay the Advance no later than 1:30 p.m. Eastern time **on the same Business Day.**

(z) after 10:30 a.m. Eastern time on a Business Day, you must pay the Advance no later than 1:30 p.m. Eastern time on the next following Business Day.

(3) **Where the Advance Must be Made.** Please pay the Advance demanded by this Certificate to the Trustee at _____ [specify account and wiring instructions].

(4) **Other Matters.**

(a) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(b) Upon receipt by the Trustee of the Advance, (i) the Trustee will apply the same directly for the purpose specified in Paragraph 1, and (ii) no portion of said amount shall be applied by the Trustee for any purpose other than as set forth in Paragraph 1.

(c) The proceeds of the Advance demanded by this Certificate will not be applied to any payment on any Excluded Bonds.

(d) The aggregate principal amount of all Excluded Bonds outstanding is \$_____.

(e) The amount of interest (computed at the Maximum Interest Rate (as that term is defined in the Indenture), which currently is _____* percent per annum) on the basis of the actual number of days elapsed over a year of 365 or 366 days, as applicable), accruing on the Bonds referred to in subparagraph 4(d) above in any period of ____** days is \$_____.

(5) **Amount Available.** Upon the payment of the Advance:

(a) The Amount Available shall be reduced automatically and permanently by \$(insert amount of reduction) of which:

(i) \$_____ is attributable to the Principal Portion; [and]

(i) \$_____ is attributable to the Interest Portion[.]; [and]

[(iii) \$_____ is attributable to the Issuer's Fee Portion (computed at a rate of 0.____% multiplied by the [original] [outstanding] principal amount of the Bonds).]

(b) **New Amount Available.** The Amount Available will be \$_____, of which:

(i) \$_____ will be the Principal Portion;

(ii) \$_____ will be the Interest Portion; and

(iii) \$_____ will be the Issuer's Fee Portion (computed at a rate of 0.____% multiplied by the [original] [outstanding] principal amount of the Bonds).

(c) The principal of the Bonds (other than Excluded Bonds) that is due on [Trustee: **complete this blank using the first Business Day after the date of this Certificate**] is \$_____. The amount of the Advance demanded in Paragraph 1 does not exceed such amount of principal.

(d) The amount of the Advance (1) does not exceed the Principal Portion of the Amount Available on the date of this Certificate and (2) was computed in accordance with the Bonds and the Indenture.

* Trustee: Fill in current Maximum Interest Rate.

** Trustee: Fill in number of days of interest coverage required to be supplied by the Interest Portion.

(e) Upon the payment referred to in Paragraph (c), the aggregate principal amount of all Bonds outstanding will be \$_____.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, _____.

_____ as Trustee

By: _____
Authorized Signatory

Exhibit C

CERTIFICATE FOR "ISSUER'S FEE ADVANCE"

STAND-BY

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ ("**Credit Enhancement Instrument**")
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below ("**Trustee**"), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, that:

- (1) **Demand for Advance.** The Trustee demands an Advance in the amount of \$_____ under the Issuer's Fee Portion of the Amount Available to be used to pay the Issuer's Fee.
- (2) **When the Advance Must be Made.** If this demand for Advance is made:
 - (a) at or prior to 5:00 p.m. Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time on the fifth Business Day following such presentation.
 - (b) after 5:00 p.m. Eastern time on a Business Day, you must pay the Advance no later than 1:00 p.m. Eastern time on the sixth Business Day following such presentation.
- (3) **Where the Advance Must be Made.** Please pay the Advance demanded by this Certificate to the Trustee at _____ [specify account and wiring instructions].
- (4) **Other Matters.**
 - (a) The Trustee is the Trustee under the Indenture for the holders of the Bonds.
 - (b) The Borrower has failed to pay the Issuer's Fee by [date of annual, quarterly or monthly payment].
 - (c) The amount of the Advance demanded (i) does not exceed the Issuer's Fee Portion of the Amount Available and (ii) was computed in accordance with the terms and conditions of the Financing Agreement dated _____, _____ among the Issuer, the Trustee and the Borrower.
 - (d) Upon receipt by the Trustee of the Advance (i) the Trustee will apply the same directly for the purpose specified in Paragraph 1 and (ii) no portion of said amount shall be applied by the Trustee for any purpose other than as set forth in Paragraph 1.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, _____.

as Trustee

By: _____
Authorized Signatory

Exhibit D

CERTIFICATE FOR "LIQUIDITY ADVANCE"

DIRECT PAY

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ ("**Credit Enhancement Instrument**")
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below ("**Trustee**"), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, that:

(1) **Demand for Advance.** The Trustee demands an Advance in the amount of \$_____, consisting of:

(a) \$_____ under the Principal Portion of the Amount Available to be used to pay the principal portion of the purchase price of Bonds; and

(b) \$_____ under the Interest Portion of the Amount Available to be used to pay the interest portion of the purchase price of Bonds purchased pursuant to Section 4.1(a) of the Indenture ("**Tendered Bonds**").

(2) **When the Advance Must be Made.** If this demand is made:

(a) at or prior to 10:30 a.m. Eastern time on a Business Day, you must pay the Advance no later than 1:30 p.m. Eastern time on the same Business Day.

(b) after 10:30 a.m. Eastern time on a Business Day, you must pay the Advance no later than 1:30 p.m. Eastern time on the next following Business Day.

(3) **Where the Advance Must be Made.** Please pay the Advance demanded by this Certificate to the Trustee at _____ [specify account and wiring instructions].

(4) **Other Matters.**

(a) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(b) The amount demanded pursuant to Paragraph 1 does not exceed the amount necessary, at the time of the presentation of this Certificate to Fannie Mae, to pay the purchase price of the Tendered Bonds which the Remarketing Agent has not remarketed or for which the Remarketing Agent has not received sufficient remarketing proceeds to pay the purchase price of the Tendered Bonds.

(c) The principal component of the aggregate purchase price of the Tendered Bonds that is due on the date of this Certificate is \$_____, and the amount of the Advance relating to the Principal Portion referred to in Paragraph 1 does not exceed such amount of principal. The aggregate accrued interest component of the purchase price of the Tendered Bonds that is due on the date of this Certificate is \$_____ and the amount of the Advance relating to the Interest Portion referred to in Paragraph 1 does not exceed such amount.

(d) On the date of this Certificate, (i) the principal portion of the Advance does not exceed the Principal Portion of the Amount Available and (ii) the interest portion of the Advance does not exceed the Interest Portion of the Amount Available. The amount of the Advance was computed in accordance with the Bonds and the Indenture.

(e) Upon receipt by the Trustee of the Advance demanded by this Certificate, (i) the Trustee will apply the same directly for the purpose specified in Paragraph 1 and (ii) no portion of said amount shall be applied by the Trustee for any purpose other than as set forth in Paragraph 1

(f) The proceeds of the Advance demanded by this Certificate will not be applied to defease, redeem or pay (whether at stated maturity or by acceleration) any Excluded Bond.

(g) Bonds in a principal amount equal to the Principal Portion of the Advance made under this Certificate will be delivered to **[Custodian]** or if, and only if, delivery of the Bonds is not possible, a written entitlement order will be delivered to the applicable financial intermediaries on whose records ownership of the Pledged Bonds is reflected directing the intermediaries to credit the security entitlement to the Pledged Bonds to the account of **[Custodian]*** for the benefit of Fannie Mae and a written confirmation of such credit will be delivered to the **[Custodian]***.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, _____.

as Trustee

By: _____
Authorized Signatory

* Fill in name of Custodian under the Pledge Agreement.

Exhibit E

CERTIFICATE OF TERMINATION

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016
Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ (“**Credit Enhancement Instrument**”)
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the undersigned Trustee (“**Trustee**”), certifies to Fannie Mae, with respect to the Credit Enhancement Instrument, that the Trustee is authorized to file this notice pursuant to the Indenture. Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

The undersigned certifies to Fannie Mae: (Trustee: Check applicable box)

(a) None of the Bonds are Outstanding under the Indenture.

(b) The Trustee has received an Alternate Credit Facility (as such term is defined in the Indenture) as permitted by the Indenture and the Reimbursement Agreement.

Pursuant to the Indenture we enclose the Credit Enhancement Instrument for cancellation.

Very truly yours,

as Trustee

By: _____
Authorized Signatory

Dated: _____

By its execution hereof, [**Name of Borrower**] (“**Borrower**”) hereby certifies to Fannie Mae that all conditions precedent to the cancellation of the Credit Enhancement Instrument and substitution of an Alternate Credit Facility set forth in the Indenture and the Reimbursement Agreement have been satisfied and hereby joins in the Trustee’s instructions to Fannie Mae to cancel the same.

[NAME OF BORROWER]

By: _____
Authorized Signatory]

Exhibit F

CERTIFICATE OF REDUCTION

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ (“**Credit Enhancement Instrument**”)
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below (“**Trustee**”), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, as follows:

- (1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.
- (2) The aggregate principal amount of Bonds outstanding has been reduced to \$_____.
- (3) Effective on [insert date]:
 - (a) the Amount Available shall be reduced by \$_____, of which (i) \$_____ is a reduction of the Principal Portion[.][and](ii) \$_____ is a reduction of the Interest Portion[.][and (iii) \$_____ is a reduction of the Issuer’s Fee Portion];
 - (b) after such reduction, the Amount Available will be \$_____, of which (i) \$_____ will be the Principal Portion, (ii) \$_____ will be the Interest Portion and (iii) \$_____ will be the Issuer’s Fee Portion; and
 - (c) after such reduction, the Amount Available will be not less than the aggregate unpaid principal amount of the Bonds Outstanding (as that term is defined in the Indenture).

By its execution hereof, [**Name of Borrower**] (“**Borrower**”) certifies to Fannie Mae that the Trustee is authorized to deliver this Certificate to Fannie Mae. The Borrower and the Trustee further certify that the amounts specified in Paragraph 3 have been determined in accordance with the terms and conditions of the Indenture and the Reimbursement Agreement.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

IN WITNESS WHEREOF, the Trustee and the Borrower have executed and delivered this Certificate as of the ___ day of _____, _____.

as Trustee

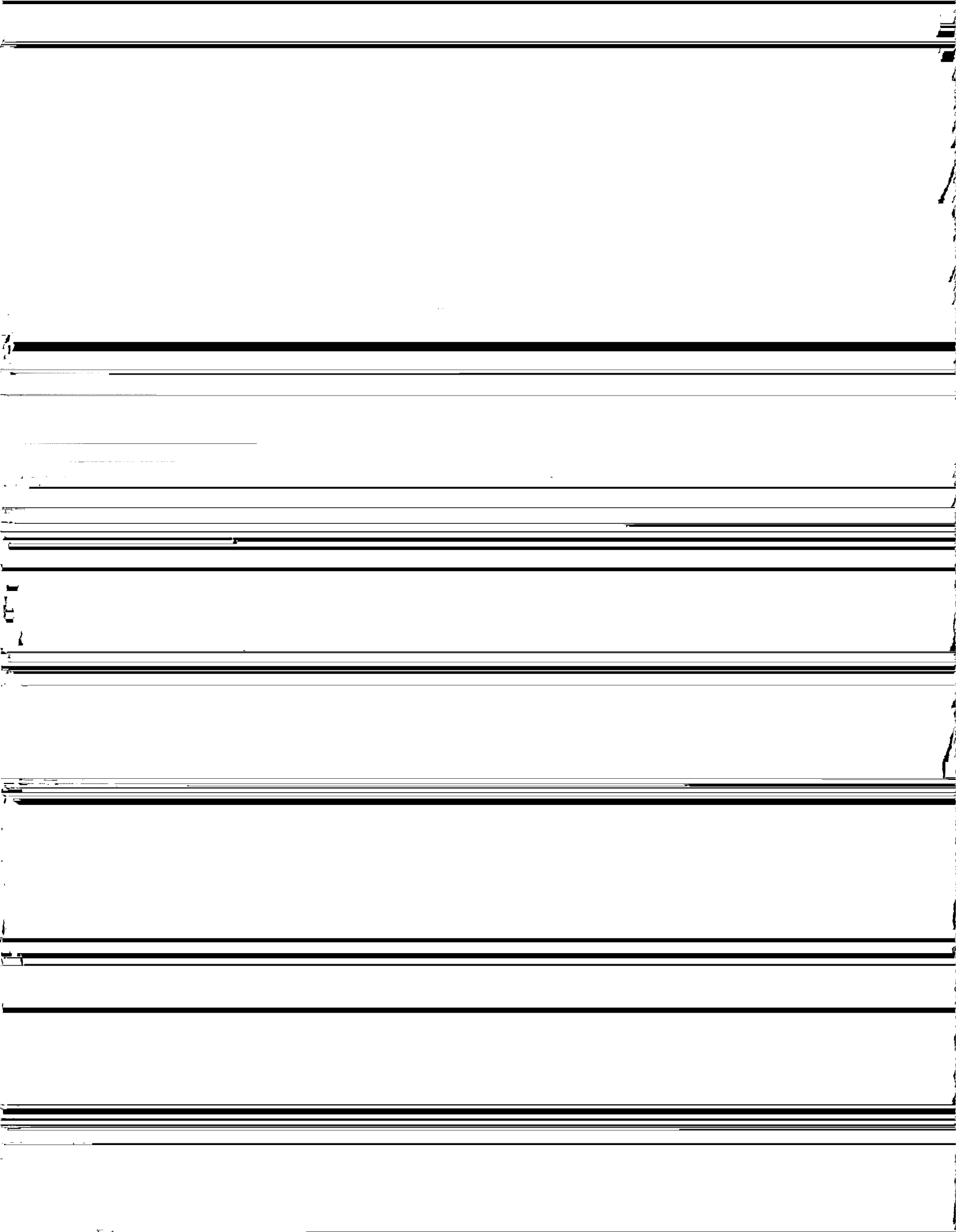


Exhibit G

CERTIFICATE OF REINSTATEMENT

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016
Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ (“**Credit Enhancement Instrument**”)
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned, a duly authorized signatory of the Trustee named below (“**Trustee**”), certifies to Fannie Mae, with reference to the Credit Enhancement Instrument, as follows:

- (1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.
- (2) The Trustee has received notification from the Tender Agent that Bonds pledged to Fannie Mae by the Borrower which were acquired with the proceeds of a Mandatory Tender Advance or a Liquidity Advance under the Credit Enhancement Instrument are to be remarketed or sold. The Trustee has received and is transferring to Fannie Mae the amount set forth in Paragraph 3.
- (3) Upon receipt by Fannie Mae of this certificate and \$_____, the Amount Available will be increased as follows:
 - (a) the Principal Portion of the Amount Available will be increased by \$_____, but such increase shall not cause the Principal Portion to exceed the original Principal Portion less the sum of (i) the principal component of all Debt Service Advances paid by Fannie Mae in accordance with the Credit Enhancement Instrument and (ii) the aggregate of all reductions of the Principal Portion pursuant to any Certificate of the Trustee in the form of Exhibit F; and
 - (b) the Interest Portion of the Amount Available will be increased by \$_____, but such increase shall not cause the Interest Portion to exceed the original Interest Portion less the aggregate of (i) the interest component of all Debt Service Advances which have not been reinstated in accordance with the Credit Enhancement Instrument, subject to the reinstatement of such amounts as set forth in the Credit Enhancement Instrument, (ii) all reductions of the Interest Portion due to any permanent reduction of the Principal Portion of the Amount Available and (iii) to the extent not addressed in (ii), all reductions of the Interest Portion pursuant to any Certificate of the Trustee in the form of Exhibit F.
- (4) Fannie Mae shall promptly release or direct Fannie Mae’s custodian in writing to release the Pledged Bonds to the Tender Agent in a principal amount corresponding to the Principal Portion identified in Paragraph 3 or, if such release is not possible, Fannie Mae shall be deemed to consent to the delivery of a written entitlement order to the applicable financial intermediary on whose records ownership of such Pledged Bonds is reflected to credit the ownership entitlement to such Bonds to the account as directed by the Trustee. Such release or deemed consent shall be conclusive evidence of the reinstatement of the Principal Portion and Interest Portion as described in Paragraph 3.

Any capitalized, but undefined, term used in this Certificate is used as defined in the Credit Enhancement Instrument.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, _____.

as Trustee

By: _____
Authorized Signatory

Exhibit H

CERTIFICATE FOR SUCCESSOR TRUSTEE

Fannie Mae
3900 Wisconsin Avenue
Washington, D.C. 20016

Attention: Director, Multifamily Operations - Direct Pay Bonds

Re: Credit Enhancement Instrument relating to Loan No. _____ (“**Credit Enhancement Instrument**”)
\$5,015,000 Texas Department of Housing and Community Affairs Variable Rate Demand
Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006

The undersigned is a duly authorized signatory of the Trustee under the Indenture for the holders of the Bonds

The Trustee transfers all rights in the Credit Enhancement Instrument to _____, subject to the terms and conditions of the Credit Enhancement Instrument. The Trustee certifies that the transferee is the successor Trustee under the Indenture referred to in the Credit Enhancement Instrument and such successor Trustee has been approved in writing by Fannie Mae. The transferee acknowledges below that it is the successor Trustee. Such successor Trustee has entered into a written agreement to be bound by the Assignment and Intercreditor Agreement dated _____, ____ by and among Fannie Mae, the Trustee and the Issuer.

By this transfer, all rights of the undersigned Trustee in the Credit Enhancement Instrument are transferred to the transferee and the transferee shall have the sole rights as the beneficiary, including sole rights relating to any amendments, whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised direct to the transferee without necessity of any consent of or notice to the undersigned.

Dated: _____

as Trustee

By: _____
Authorized Signatory

The above signature of an officer or other authorized representative conforms to that on file with us. Said officer or representative is authorized to sign for said party.

By: _____
Authorized Signatory

_____ acknowledges that it is the successor to _____ as Trustee under the Indenture.

By: _____
Authorized Signatory

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT

The following statements are a brief summary of certain provisions of the Reimbursement Agreement. The summary does not purport to be complete, and reference is made to the Reimbursement Agreement for a full and complete statement of the provisions thereof. In addition, Fannie Mae shall have the right without the consent of, or notice to, the Trustee, the Issuer or the Bondholders, to amend, modify, change, add to or delete any of the provisions of the Reimbursement Agreement. Capitalized terms used in this Exhibit and not otherwise defined will have the meanings given them in the Reimbursement Agreement.

The Credit Facility is issued pursuant to the Reimbursement Agreement. The Reimbursement Agreement obligates the Borrower, among other things, to reimburse Fannie Mae for funds advanced by Fannie Mae under the Credit Facility and to pay various fees and expenses. The Reimbursement Agreement sets forth various affirmative and negative covenants of the Borrower, some of which are more restrictive with respect to the Borrower than similar covenants contained in the Financing Agreement. The Reimbursement Agreement also includes various Events of Default, including, but not limited to, payment defaults, covenant defaults and cross-defaults to other documents, including in some cases other indebtedness.

Upon the occurrence of an Event of Default under the Reimbursement Agreement, Fannie Mae may, among other things, accelerate the Bonds, subject the Bonds to mandatory purchase and/or exercise any other rights or remedies available under any Transaction Document or take any other action, whether at law or in equity, without notice or demand, as it deems advisable to protect and enforce its rights.

Fannie Mae shall have the right, in its sole discretion, to amend, modify, change, add to or delete any provisions of the Reimbursement Agreement, including, but not limited to, adding cross-defaults to any other documents and agreements, without receiving the consent of, or providing notice to, the Trustee, the Issuer or the Bondholders. Fannie Mae shall also have the right, in its sole discretion, to waive any Event of Default under any Transaction Document. Unless such waiver expressly provides to the contrary, any waiver so granted shall extend only to the specific event or occurrence which gave rise to the Event of Default so waived and not to any other similar event or occurrence which occurs subsequent to the date of such waiver.

APPENDIX G

FORM OF PROPOSED OPINION OF BOND COUNSEL

September 14, 2006

Texas Department of Housing and
Community Affairs
Austin, Texas

Fannie Mae
Washington, D.C.

Stern Brothers & Co.
St. Louis, Missouri

Ladies and Gentlemen:

We have represented the Texas Department of Housing and Community Affairs (the "Issuer") in connection with the issuance by the Issuer of its \$5,015,000 Variable Rate Demand Multifamily Housing Mortgage Revenue Refunding Bonds (Red Hills Villas) Series 2006 (the "Bonds") pursuant to a resolution adopted by the Issuer on August 30, 2006 (the "Bond Resolution") and a Trust Indenture dated as of September 1, 2006 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds bear interest at the rate and mature on the date as provided in the Indenture. The Bonds are subject to mandatory and optional redemption prior to maturity as set forth in the Indenture. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Indenture, in the Financing Agreement dated as of September 1, 2006 (the "Financing Agreement") among the Issuer, the Trustee and South Creek Housing, Ltd., a Texas limited partnership (the "Borrower"), or in the Amended and Restated Regulatory and Land Use Restriction Agreement dated as of September 1, 2006 (the "Regulatory Agreement"), among the Issuer, the Trustee and the Borrower.

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

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

Bond Counsel's opinions also assume continuous compliance with all covenants and requirements set forth in the Indenture, the Financing Agreement and the Regulatory Agreement pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

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

Based on said examination, and subject to the assumptions, qualifications and limitations set forth herein, it is our opinion that, under existing law and prior to the first change of interest rate modes for which a Favorable Opinion of Bond Counsel is required under the Indenture:

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

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

Further, pursuant to the Indenture, certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, we express no opinion regarding the excludability of interest on the Bonds from gross income for federal income tax purposes, or with respect to any other matters, on and after the date or dates, if any, of any such changes. Further, we express no opinion on our ability to render the opinion required in connection with such changes.

Certain other actions may be taken or omitted subject to the terms and conditions set forth in the Indenture and related documents, upon the advice or with an approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds. Furthermore, we express no opinion as to whether any person treated as the owner of a Bond under the Indenture is also properly treated as the owner of such Bond for federal income tax purposes.

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

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

Owners of the 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 Bonds.

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

Furthermore, the enforceability of the indemnification provisions contained in any Bonds may be limited by applicable securities law and public policy.

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

respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

[Faint, illegible text, likely a signature or stamp]

APPENDIX H

SINKING FUND SCHEDULE

Date	Principal Amount
09/15/2019	\$100,000
09/15/2020	100,000
09/15/2021	100,000
09/15/2022	100,000
09/15/2023	100,000
09/15/2024	100,000
09/15/2025	100,000
09/15/2026	200,000
09/15/2027	200,000
09/15/2028	200,000
09/15/2029	200,000
09/15/2030	200,000
09/15/2031	200,000
09/15/2032	200,000
09/15/2033	300,000
09/15/2034	300,000
09/15/2035	300,000
09/15/2036	2,015,000
Total	\$5,015,000