OFFICIAL STATEMENT

RATINGS.
Moody's Aa2
S & P: A+
See "RATINGS" herein

Interest on the Series 2002A Bonds is includable in gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein

NEW ISSUE - BOOK-ENTRY ONLY

$10,000,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Taxable Junior Lien Single Family Mortgage Revenue Bonds
Series 2002A

Interest Accrues: March 1, 2002 Due: September 1, 2026

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

The Series 2002A Bonds will accrue interest from the date shown above until maturity or prior redemption at the rate of 7.01% per annum. Interest on the Series 2002A Bonds will be payable to DTC commencing on September 1, 2002, and semi-annually thereafter on each March 1 and September 1 until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

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

The Series 2002A Bonds are being issued for the primary purpose of providing funds to finance single-family mortgage loans, multifamily mortgage loans, downpayment assistance for eligible very low income first-time homebuyers in connection with the purchase or development of homes located primarily in rural and border regions of the State of Texas, to pay the costs of issuance of the Series 2002A Bonds and other permitted programs and purposes as determined by the Department from time to time. The Series 2002A Bonds are payable solely from the Revenues and Funds pledge to the payment thereof, as more fully described herein, on a basis which is junior and subordinate to the pledge securing the Department's Senior Lien Bonds (as defined herein). See "SECURITY FOR THE BONDS" and "THE JUNIOR LIEN TRUST INDENTURE."

THE SERIES 2002A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE OF TEXAS (THE "STATE") NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2002A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER.

The Series 2002A Bonds are offered when, as, and if issued by the Department. Delivery of the Series 2002A Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their counsel Wickliff & Hall, P.C. It is expected that the Series 2002A Bonds will be available for delivery to DTC in book-entry only form on or about March 27, 2002.

March 6, 2002

M.R. BEAL & COMPANY

GEORGE K. BAUM & COMPANY **SIEBERT BRANDFORD SHANK & CO., LLC**

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

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

THE TRUSTEE ASSUMES NO RESPONSIBILITY FOR THIS OFFICIAL STATEMENT AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED HEREIN.

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

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OFFICIAL STATEMENT

Relating to

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

$10,000,000
Taxable Junior Lien Single Family
Mortgage Revenue Bonds
Series 2002A

INTRODUCTION

General

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its $10,000,000 Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A (the "Series 2002A Bonds"). Terms used but not otherwise defined herein shall have the respective meanings set forth in "APPENDIX A -- GLOSSARY."

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

Plan of Finance

The Department and its predecessor in interest, the Agency, have previously issued twenty-seven series (of which fourteen series remain outstanding) of its Single Family Mortgage Revenue Bonds (the "Senior Lien Bonds") pursuant to the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, as supplemented and amended by the First through Thirty-First Supplemental Single Family Mortgage Revenue Bond Trust Indentures (as supplemented and amended, the "Senior Lien Trust Indenture"), by and between the Department or its predecessor, the Agency, and Bank One, National Association, as successor trustee (the "Senior Lien Indenture Trustee"). Pursuant to the Senior Lien Trust Indenture, the Department (as successor to the functions of the Agency) is authorized to, among other things, acquire, and enter into advance commitments to acquire, mortgage loans secured by mortgages on residential housing and to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such mortgage loans, and to pledge or grant security interests in such mortgages, mortgage loans or other property of the Department, to secure the payment of the Senior Lien Bonds (the "Senior Lien Mortgage Loans"). See "APPENDIX C -

ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." In addition to the Senior Lien Bonds, the Department has also previously issued its Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A (the "Series 1994A Bonds") and its Taxable Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994B (the "Taxable Series 1994B Bonds") (the Series 1994A Bonds and the Taxable Series 1994B Bonds, collectively, the "Series 1994 Bonds"), of which only the Series 1994A Bonds remain outstanding, pursuant to a Junior Lien Trust Indenture, dated as of May 1, 1994 (the "Master Indenture"), between the Department and Bank One, National Association, a national banking association having a corporate trust office in Austin, Texas (together with its successors in such capacity, the "Trustee"), a First Supplemental Junior Lien Trust Indenture, dated as of May 1, 1994, and a Second Supplemental Indenture, dated as of May 1, 1994. The Master Indenture, as amended and supplemented is referred to herein as the "Junior Lien Trust Indenture". The Series 1994 Bonds are payable solely from the Revenues and Funds pledged for the payment thereof as more fully described herein on a basis which is junior and subordinate to the pledge securing the Department's Senior Lien Bonds.

The Series 2002A Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on February 21, 2002, and a Third Supplemental Junior Lien Trust Indenture (Series Supplement 2002A), dated as of March 1, 2002 (the "Series 2002A Series Supplement"), between the Department and the Trustee. All obligations issued pursuant to the Junior Lien Trust Indenture, including the Series 1994 Bonds, the Series 2002A Bonds and any additional obligations, are collectively referred to herein as the "Obligations." All Obligations issued pursuant to the Junior Lien Trust Indenture are and will be equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Junior Lien Trust Indenture; provided, however that the Department has reserved the right to issue obligations under the Junior Lien Trust Indenture which are subordinated in the right of repayment to the Obligations. See "SECURITY FOR THE SERIES 2002A BONDS."

It is anticipated that the net proceeds of the Series 2002A Bonds will be used to make or acquire certain single-family mortgage loans (the "Series 2002A Mortgage Loans") as described herein under "THE PROGRAM AND THE MORTGAGE LOANS", to make multifamily mortgage loans and to provide downpayment assistance to eligible very low income first-time homebuyers for the purchase or development of homes located primarily in rural and border regions of the State of Texas, to pay the Costs of Issuance of the Series 2002A Bonds and for other permitted programs and purposes as determined by the Department from time to time.

The Obligations are limited obligations of the Department and are payable solely from Revenues or Funds of the Department pledged under the Junior Lien Trust Indenture. Revenues under the Junior Lien Trust Indenture include (i) Surplus Revenues, as described in the Senior Lien Trust Indenture, received by the Trustee from the Senior Lien Indenture Trustee or from the Department; (ii) all interest received on or profits derived from investing money held in the Funds (other than the Cost of Issuance Fund, the Expense Fund, the Rebate Fund, the Credit Support Fund and any other Fund, Account or subaccount identified as not pledged as part of the Trust Estate in a Series Supplement); and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee as part of the Trust Estate pursuant to a Supplemental Indenture; provided, however, that "Revenues" does not include any amount held in any Rebate Fund, unless such amount is required to be transferred to the Revenue Fund pursuant to the applicable Series Supplement.

Monies under the Senior Lien Trust Indenture only become Surplus Revenues available to be released to pay debt service on the Obligations to the extent such revenues are in excess of (i) all current debt service obligations on the Senior Lien Bonds issued thereunder and, (ii) all expenses of the Department in administering the programs related to the Senior Lien Bonds. In addition, prior to each release the Department must demonstrate that projected revenues under the Senior Lien Trust Indenture will be sufficient to pay debt service on the Senior Lien Bonds and expenses of the Department in the then current and each succeeding Bond Year and that the assets held under the Senior Lien Trust Indenture are at least equal to 100% of the aggregate principal amount of the Senior Lien Bonds outstanding under the Senior Lien Trust Indenture. See "SECURITY FOR THE SERIES 2002A BONDS."

THE SERIES 2002A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2002A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER.

There follows in this Official Statement, among other things, a brief description of the Department and its activities, together with summaries of the terms of the Series 2002A Bonds, the Junior Lien Trust Indenture, the Senior Lien Trust Indenture and certain provisions of the Act. All references herein to the Act, the Senior Lien Trust Indenture, the Junior Lien Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 2002A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Junior Lien Trust Indenture.

THE DEPARTMENT

General

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

The Department is subject to the Texas Sunset Act (Chapter 325, Texas Government Code, as amended, hereinafter referred to as the "Sunset Act,") and its continued existence is subject to a review process that commenced in 1999 and resulted in passage of legislation in the 2001 session of the Texas Legislature which continues the Department in existence until September 1, 2003. The next regular session of the Texas Legislature does not convene until January, 2003. Therefore, unless continued by legislation adopted at such session or at a specially called legislative session, the Department will be abolished effective September 1, 2003. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished under the provisions thereof and provides that the Governor of the State shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act (such as the Series 2002A Bonds) that the State will not limit or alter the rights vested in the Department to fulfill the terms of any agreements made with the holders thereof that would in any way impair the rights and remedies of such holders until such bonds, together with the interest thereon, interest on any unpaid installments of interest and all costs and expenses incurred in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Organization and Membership

Governing Board

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

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

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

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

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

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

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

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

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

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

Administrative Personnel

The Act provides that the Department is to be administered by an Executive Director to be employed by the Board with the approval of the Governor. The Executive Director serves at the pleasure of the Board, but may also be removed by a newly elected Governor who did not approve the Executive Director's appointment by action taken within 90 days after such Governor takes office. The Executive Director is responsible for administering the Department and its personnel. The Executive Director may employ other employees necessary for the discharge of the duties of the Department, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Department's bonds. The Department's most recent Executive Director resigned from the Department effective October12, 2001. On October 17, 2001, the Board appointed Ruth Cedillo as Acting Executive Director. After accepting and considering applications for the position of Executive Director, on February 21, 2002, the Board voted to employ Edwina P. Carrington as Executive Director commencing March 11, 2002.

Currently, the Department has 335 employees with 23 being employed in the Department's Housing Finance Division, the division with primary responsibility for the administration of, among other things, bond-financed single family and multi-family programs. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

EDWINA P. CARRINGTON, Executive Director. Ms. Carrington is rejoining the Department as Executive Director, having served as Multifamily Manager, Programs Manager, and Multifamily Compliance Officer for the Agency from August 1985 to June 1990. In such positions, Ms. Carrington's duties included management of single family loan purchase programs, multifamily housing development financing programs, mortgage credit certificate programs, the low-income tax credit program, and preparation of annual operating budgets for the programs area. Upon leaving the Agency in 1990, Ms. Carrington became the manager of the Austin Housing Finance Corporation in which she was responsible for the operations of the City of Austin Housing Assistance Fund, tax exempt bond portfolio, affordable housing programs and long range housing planning. Immediately prior to being employed as Executive Director of the Department, Ms. Carrington was the Chief Executive Officer of Texas Housing Finance Corporation, a 501(c)(3) organization created to assist development of affordable housing through a series of tax credit equity funds, a position she has held since April 1994. Prior to originally joining the Agency in 1985, Ms. Carrington has been a vice president for property management for multifamily projects, seminar leader for the National Association of Housing and Development Officials, regional director for the Dallas Center of Management, and housing community development director for the Ark-Tex Council of Governments. Ms. Carrington has a B.S. degree from Tennessee Technological University, earned a Masters in public administration from Texas A & M University, Texarkana and is a Certified Commercial Investment Manager (CCIM). Ms. Carrington is a member of numerous housing organizations, including as having served as President of the Texas Association of Local Housing Finance Agencies, Texas Affiliation of Affordable Housing Providers, and the National Association of State and Local Equity Funds, as well as serving as board member of the Association of Local Housing Finance Agencies.

RUTH CEDILLO, Acting Executive Director. Ms. Cedillo has been with the Department or its predecessor agencies in the State Small Cities Community Development Block Grant Program for the past 19 years. She began as Assistant Chief of Special Programs - Economic Development, and progressed to Director of the Texas Community Development Program. In March 2000, Ms. Cedillo was named Deputy Executive Director for the Department. Ms. Cedillo attended the University of St. Thomas in Houston, Texas, and has extensive training in community and economic development.

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

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

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

BETTY J. MARKS, General Counsel. Ms. Marks joined the Department on November 1, 1996, as General Counsel. Prior to joining the Department, Ms. Marks had been an Administrative Law Judge for the Comptroller of Public Accounts of the State of Texas for approximately five years. Prior to that time, Ms. Marks was in private practice for approximately 20 years in Houston, Texas, specializing in federal income, gift and estate tax matters. Ms. Marks received her B.S. in Business Administration from Louisiana State University and her J.D. from the University of Texas School of Law.

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

THE SERIES 2002A BONDS

General

The Series 2002A Bonds are issuable only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as the Bond Depository for the Series 2002A Bonds. The Series 2002A Bonds will be available to purchasers in book-entry form only in denominations of the principal amount of $5,000 or any integral multiple thereof, as more fully described herein. The principal or redemption price of and interest on the Series 2002A Bonds will be payable by the Trustee to DTC, which will be responsible for making such payments to DTC Participants (hereinafter defined) for subsequent remittance to the owners of beneficial interests in the Series 2002A Bonds or their nominees. All references herein to the Bondholders, holders, holders of the Series 2002A Bonds or registered owner of the Series 2002A Bonds shall mean Cede & Co., and not the Beneficial Owners (hereinafter defined) of the Series 2002A Bonds. See "THE SERIES 2002A BONDS - Book-Entry-Only System."

The Series 2002A Bonds will mature on September 1, 2026, subject to prior redemption as described herein. The Series 2002A Bonds will bear interest from March 1, 2002, until maturity or prior redemption, at the rate of 7.01% per annum. Interest accrued on the Series 2002A Bonds will be payable on September 1, 2002, and semiannually on each March 1 and September 1 thereafter until maturity or prior redemption. Interest on the Series 2002A Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Redemption Provisions*

General. The Series 2002A Bonds are subject to optional and mandatory redemption at various times, and prior to their scheduled maturity at various redemption prices as described below. **The Department anticipates that a substantial portion of the Series 2002A Bonds may be redeemed prior to their scheduled maturity as further set forth below, as the result of the receipt by the Department of amounts representing Series 2002A Mortgage Loan principal payments and prepayments, Surplus Revenues, Residual Revenues and other amounts.**

Optional Redemption. The Series 2002A Bonds are subject to redemption prior to maturity, in whole or in part, at any time and from time to time on or after September 1, 2012, at the option of the Department, after giving notice as provided in the Master Indenture, at a redemption price equal to 100% of the principal amount of the Series 2002A Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2002A Bonds are subject to scheduled mandatory sinking fund redemption prior to maturity in the principal amounts and on the dates set forth in the following table, at a redemption price equal to 100% of the principal amount of Series 2002A Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

Redemption Date	Principal Amount
March 1, 2025	$2,500,000
September 1, 2025	2,500,000
March 1, 2026	2,500,000
September 1, 2026 (Maturity)	2,500,000

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

Redemption From Surplus Revenues, Series 2002A Mortgage Loan Principal Payments, Series 2002A Mortgage Loan Principal Prepayments and Residual Revenues. The Series 2002A Bonds shall be subject to redemption in Authorized Denominations at a Redemption Price equal to the principal amount of the Series 2002A Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, without premium, as set forth below:

(i) In whole or in part, at any time and from time to time at the written direction of the Department (unless otherwise provided in the Indenture) after giving notice as provided in the Indenture, from amounts that have been transferred to the Series 2002A Special Redemption Account from the Series 2002A Revenue Account (other than as provided in subparagraph (ii) below) or the Series 2002A Residual Revenues Account;

(ii) In whole or in part, on each March 1 and September 1 after giving notice as provided in the Master Indenture, from amounts that have been deposited to the Series 2002A Special Redemption Account from the Series 2002A Mortgage Loan Revenue account held under the Senior Lien Indenture, either by transfer through the Series 2002A Revenue Account or otherwise; provided, however, that the Department may direct otherwise by a Letter of Instructions accompanied by a Cashflow Certificate; and

(iii) In whole or in part, at any time and from time to time, upon giving timely notice of redemption as provided in the Master Indenture, from moneys that have been transferred to the Series 2002A Special Redemption Account from any Fund or Account relating to another Series of Obligations.

The conditions upon which such amounts may be transferred to the Special Redemption Fund and used to redeem Series 2002A Bonds under (i) above are more fully described under the subheadings"Revenue Fund" and "Residual Revenues Fund" contained herein under the caption "THE JUNIOR LIEN TRUST INDENTURE." Moneys transferred to the Special Redemption Fund as described in (iii) above may derive from or relate to any Series of Obligations, including additional Obligations, other than the Series 2002A Bonds.

Selection of Bonds for Redemption. In the event of redemption of less than all of the Series 2002A Bonds, the Trustee shall select the Series 2002A Bonds to be redeemed by lot, or other customary method, unless otherwise provided in a Letter of Instructions accompanied by a Cashflow Certificate. For purposes of selecting Series 2002A Bonds for redemption, Series 2002A Bonds shall be deemed to be composed of Authorized Denominations and any such Authorized Denomination may be separately redeemed.

Assumptions Regarding Certain Redemptions

The maturity and sinking fund installments of the Series 2002A Bonds were determined on the basis of the assumption that there will be no prepayments of the Senior Lien Mortgage Loans and the Series 2002A Mortgage Loans. **In fact, however, the Department expects to receive certain Surplus Revenues representing payments and prepayments of principal on the Senior Lien Mortgage Loans and the**

Series 2002A Mortgage Loans and to apply all or a portion of such monies to the redemption of the Series 2002A Bonds and the Senior Lien Bonds. Funds which are derived as Surplus Revenues of the Senior Lien Trust Indenture will be applied for the redemption of Series 2002A Bonds at the discretion of the Department. Subject to providing for payment when due of the principal of and interest on the Obligations, the Department may use funds under the Senior Lien Indenture which otherwise would become Surplus Revenues to redeem Senior Lien Bonds. It is anticipated that the Department will utilize Surplus Revenues which are available for redemption to redeem the Series 2002A Bonds and the highest coupon Senior Lien Bonds available to be redeemed. Therefore, a substantial portion of the Series 2002A Bonds is expected to be redeemed prior to their scheduled maturity at a redemption price of par. See "ASSUMPTIONS AND RISKS."

Notice of Redemption

General. Notice of any redemption will be delivered by the Trustee to DTC, not less than 30 days nor more than 60 days prior to the date set for redemption. DTC is responsible for notifying DTC Participants, and DTC Participants including Indirect Participants (hereinafter defined) are responsible for notifying Beneficial Owners (hereinafter defined). Neither the Trustee nor the Department is responsible for sending notices of redemption to Beneficial Owners. See "Book-Entry-Only System."

Partial Redemption. In the event that a Series 2002A Bond subject to redemption is in a denomination larger than $5,000 principal amount, a portion of such Series 2002A Bond may be redeemed, but only in a principal amount equal to $5,000, or an integral multiple thereof. Upon surrender of any Series 2002A Bond for redemption in part, the Trustee will authenticate and deliver an exchange Series 2002A Bond, in an aggregate principal amount equal to the unredeemed portion of the surrendered Series 2002A Bond. See "Book-Entry-Only System."

Purchase in Lieu of Redemption. The Trustee, upon the written direction of the Department, shall apply monies held in the account related to the Series 2002A Bonds within the Special Redemption Fund to purchase Series 2002A Bonds on the open market in lieu of redemption so long as the purchase price (excluding accrued interest but including any brokerage and other charges) of any of such Series 2002A Bonds does not exceed 100% of the principal amount of such Series 2002A Bonds. All Series 2002A Bonds so purchased must be canceled by the Trustee.

Book-Entry-Only System

The Series 2002A Bonds will be available in book-entry form only. Purchasers of the Series 2002A Bonds will not receive certificates representing their interests in the Series 2002A Bonds purchased. The Depository Trust Company, New York, New York ("DTC") will act as Bond Depository for the Series 2002A Bonds. The ownership of one fully registered Series 2002A Bond for each maturity within a Series will be registered in the name of Cede & Co., as nominee for DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Department believes to be reliable, but the Department takes no responsibility for the accuracy or completeness thereof.

DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations, certain of which own DTC either directly or through their representatives. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant (the "Indirect Participants").

Purchases of Series 2002A Bonds under the DTC system may be made through brokers and dealers who are, or act through, DTC Participants. Upon such purchase, the DTC Participants will receive a credit balance on the records of DTC. The ownership interest of the actual purchaser of each Series 2002A Bond or such purchaser's nominee (collectively, the "Beneficial Owner") will be recorded in the records of the DTC Participant or Indirect Participant. DTC Participants and Indirect Participants are expected to provide Beneficial Owners with a written confirmation of their purchases containing details of the Series 2002A Bonds acquired. Transfers of ownership interests in the Series 2002A Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Indirect Participants and Beneficial Owners.

BENEFICIAL OWNERS WILL NOT RECEIVE SERIES 2002A BONDS IN DEFINITIVE FORM REPRESENTING THEIR OWNERSHIP INTEREST IN THE SERIES 2002A BONDS AND WILL NOT BE, OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE JUNIOR LIEN TRUST INDENTURE. BENEFICIAL OWNERS WILL HAVE NO VOTING RIGHTS UNDER THE JUNIOR LIEN TRUST INDENTURE AND CEDE & CO., AS NOMINEE OF DTC, ALONE WILL HAVE VOTING RIGHTS WITH RESPECT TO THE SERIES 2002A BONDS. FURTHER, AS DESCRIBED HEREIN, THE RIGHTS OF THE BENEFICIAL OWNERS OF THE SERIES 2002A BONDS, INCLUDING WITHOUT LIMITATION, THE RIGHT OF BENEFICIAL OWNERS TO RECEIVE NOTICE AND TO CONSENT TO CERTAIN ACTIONS OR OMISSIONS UNDER THE JUNIOR LIEN TRUST INDENTURE, ARE IN CERTAIN CASES SUBJECT TO AND DEPENDENT UPON THE ACTIONS AND PROCEDURES OF AND AGREEMENTS AND ARRANGEMENTS AMONG DTC AND THE DTC PARTICIPANTS. BENEFICIAL OWNERS OF THE SERIES 2002A BONDS ARE ADVISED TO CLARIFY AND CONFIRM SUCH ACTIONS, PROCEDURES, AGREEMENTS AND ARRANGEMENTS DIRECTLY WITH THE APPLICABLE DTC PARTICIPANTS.

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

With certain exceptions described herein, the Department and the Trustee may treat and consider DTC or Cede & Co. as the absolute owner of each of the Series 2002A Bonds for the purpose of payment of the principal of and premium, if any, and interest on such Series 2002A Bonds, for the purpose of giving notices with respect to redemption and other matters with respect to such Series 2002A Bonds, for the purpose of registering transfers with respect to such Series 2002A Bonds, for obtaining any consent as to other actions required or permitted to be taken of or by the owners of such Series 2002A Bonds, for purposes of voting, and for all other purposes whatsoever. So long as any Series 2002A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Series 2002A Bonds and all notices with respect to such Series 2002A Bonds will be made and given, respectively, to or upon the order of DTC.

The Trustee will make payments of the principal or redemption price of and interest on the Series 2002A Bonds to DTC or its nominee, Cede & Co., as the registered owner of the Series 2002A Bonds and such payments will be valid and effective to fully discharge the Department's and the Trustee's obligations to the extent of such payments. The current practice of DTC is to credit the accounts of the DTC Participants immediately upon receipt of moneys in accordance with their respective holdings shown on the records of

DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be in accordance with standing instructions and customary practices such as those which are now the case for municipal securities held by DTC Participants and Indirect Participants in bearer form or registered in "street name" for the accounts of customers and will be the responsibility of such DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee or the Department, subject to any statutory and regulatory requirements as may be in effect from time to time.

SO LONG AS A BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES 2002A BONDS, THE TRUSTEE AND THE DEPARTMENT WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES WITH RESPECT TO SUCH SERIES 2002A BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNER, OF ANY SUCH NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF SUCH SERIES 2002A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Redemption of portions of the Series 2002A Bonds by the Department will reduce the outstanding principal amount of such Series 2002A Bonds held by DTC. In such event, DTC may implement, through its book-entry system, a redemption of such Series 2002A Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and the DTC Participants and Indirect Participants may implement a redemption of any such Series 2002A Bonds for the Beneficial Owners. Any such selection of Series 2002A Bonds to be redeemed will not be governed by the Junior Lien Trust Indenture and will not be conducted by the Department or the Trustee. NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 2002A BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2002A BONDS FOR REDEMPTION.

The Department and the Trustee cannot give any assurances that DTC Participants or others will distribute payments of the principal or redemption price of and interest on the Series 2002A Bonds paid to DTC or its nominee, as the registered owner, or distribute any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

For every transfer and exchange of Series 2002A Bonds the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC (or a successor Bond Depository) may determine to discontinue providing its service with respect to the Series 2002A Bonds at any time by giving notice to the Department and discharging its responsibilities with respect thereto under applicable law. In addition, in the event that the Department determines that the Bond Depository is incapable of discharging its duties, or that it is in the best interests of the Department or the owners of the Series 2002A Bonds, the Department may determine to discontinue the use of book-entry transfers through DTC (or a successor Bond Depository). Under such circumstances, based on information received from DTC or any successor Bond Depository as to the Beneficial Owners of the Series 2002A Bonds, definitive bonds will be delivered to the Beneficial Owners in definitive form as provided in the Junior Lien Trust Indenture.

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

Responsibilities of the Department and the Trustee With Respect to the Book-Entry-Only System and Use of Certain Terms in Other Sections of this Official Statement. The Junior Lien Trust Indenture provides that with respect to the Bonds registered in the name of Cede & Co., as nominee of DTC, the Department and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom a DTC Participant holds an interest in the Series 2002A Bonds. Without limiting the preceding sentence, the Department and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Series 2002A Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the registration books, of any notice with respect to the Series 2002A Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown on the registration books, of any amount with respect to principal of, premium, if any, or interest on the Series 2002A Bonds.

In reading this Official Statement, it should be understood that while the Series 2002A Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners or holders should be read to include the person for whom a Direct or Indirect Participant acquires an interest in the Series 2002A Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Junior Lien Trust Indenture will be given only to DTC.

Discontinuation of Book-Entry-Only System

In the event that the book-entry-only system is discontinued by DTC or the Department, the following provisions will be applicable to the Series 2002A Bonds. Series 2002A Bonds may be exchanged for an equal aggregate principal amount of Series 2002A Bonds in other Authorized Denominations of the same maturity and interest rate upon surrender thereof at the applicable corporate trust office of the Trustee with a duly executed assignment in form satisfactory to the Trustee. The transfer of any Series 2002A Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2002A Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2002A Bonds, the Department and the Trustee may make a charge sufficient to reimburse them for any tax, fee, or other governmental charge required to be paid with respect to such exchange or registration of transfer, as well as the fee, if any, charged by the Trustee for the transfer or exchange The Trustee will not be required to transfer or exchange any Series 2002A Bond for a period of 15 days next preceding an interest payment date on such Series 2002A Bonds or next preceding any selection of Series 2002A Bonds to be redeemed or thereafter until after mailing of any notice of redemption on any Series 2002A Bonds called for redemption or transfer or exchange any Series 2002A Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 2002A Bond is registered as the absolute owner thereof for all purposes, whether such Series 2002A Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Series 2002A Bond. If any Series 2002A Bond is not presented for payment when the principal or the redemption price therefor becomes due, and if moneys sufficient to pay such Series 2002A Bond (or the portion thereof called for redemption) or such interest, as is applicable, have been deposited under the Junior Lien Trust Indenture, all liability of the Department to the owner thereof for the payment of such Series 2002A Bonds (or portion thereof) or such interest, as applicable, will be discharged, and thereupon it shall be the duty of the Trustee to hold such money for the benefit of the owner of the applicable

Series 2002A Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Junior Lien Trust Indenture or on or with respect to, such principal, redemption price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), in accordance with Title 6, Texas Property Code.

SECURITY FOR THE SERIES 2002A BONDS

Pledge of Junior Lien Trust Indenture

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

The principal or Redemption Price of and interest on all Obligations, and on a subordinate basis any Subordinated Obligations, are payable solely from and are secured by a pledge of and lien on the Trust Estate established pursuant to the Junior Lien Trust Indenture, which consists primarily of the following:

(a) On a basis junior and subordinate to the lien granted under the Senior Lien Trust Indenture to the Senior Lien Indenture Trustee and the holders of the Senior Lien Bonds, all right, title and interest of the Department now owned or hereafter acquired in and to amounts in the Revenue Fund established in and pursuant to the Senior Lien Trust Indenture, to the extent that such amounts become Surplus Revenues;

(b) All right, title and interest of the Department now owned or hereafter acquired in and to the Program Documents, the Mortgage Documents, the Mortgage Loans or the Department Loans (other than as provided in subparagraph (c) below), including any amendments to or extensions and renewals thereof, including without limitation, all present and future rights of the Department to bring actions and proceedings under the Program Documents, the Mortgage Documents, the Mortgage Loans or the Department Loans, or for the enforcement thereof, and to do any and all things which the Department is or may become entitled to do under the Program Documents, the Mortgage Documents, the Mortgage Loans or the Department Loans;

(c) On a basis junior and subordinate to the lien granted under the Senior Lien Trust Indenture to the Senior Lien Indenture Trustee and the holders of the Senior Lien Bonds, all right, title and interest of the Department now owned or hereafter acquired in and to the Loan Receipts to the extent such Loan Receipts become Surplus Revenues;

(d) All right, title and interest of the Department now owned or hereafter acquired in and to the money deposited or required to be deposited in any Fund (other than the Cost of Issuance Fund, the Expense Fund, the Credit Support Fund and any Rebate Fund and any other Fund, Account or subaccount identified as not pledged in a Series Supplement) pursuant to the provisions of the Junior Lien Trust Indenture and all right, title and interest in and to the Investment Securities held in any Fund (other than the Cost of Issuance Fund, the Expense Fund, the Credit Support Fund and any Rebate Fund and any other Fund, Account or subaccount excluded in a Series Supplement) pursuant to the provisions of the Junior Lien Trust Indenture; and

(e) Any and all property of every kind and nature (including, without limitation, cash, obligations or securities) which may from time to time be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the

Junior Lien Trust Indenture by the Department or anyone on its behalf, or which pursuant to any of the provisions of the Junior Lien Trust Indenture may come into the possession or control of the Trustee as security under the Junior Lien Trust Indenture, or of a receiver lawfully appointed under the Junior Lien Trust Indenture, all of which property the Trustee is authorized to receive, hold and apply according to the terms of the Junior Lien Trust Indenture.

Pursuant to the Senior Lien Trust Indenture, any moneys remaining in the Revenue Fund after an interest payment date for the Senior Lien Bonds are deemed to be Surplus Revenues. The Senior Lien Indenture contains a "Senior Lien Asset Test" and the Junior Lien Trust Indenture contains a "Junior Lien Asset Test", both of which are hereinafter described, governing release of Surplus Revenues from the Senior Lien Trust Indenture and the Junior Lien Trust Indenture, respectively. Pursuant to the Sixteenth Supplement to the Senior Lien Trust Indenture, the Department must meet both the Senior Lien Asset Test and the Junior Lien Asset Test prior to releasing Surplus Revenues free and clear of the pledge of the Senior Lien Trust Indenture and the Junior Lien Trust Indenture, respectively.

During such time as the Department is not meeting the Senior Lien Asset Test, the Department may only direct the Senior Lien Indenture Trustee (i) to transfer Surplus Revenues to the Senior Lien Mortgage Loan Fund or the Senior Lien Redemption Account; (ii) to invest the Surplus Revenues in Investment Securities (as defined in the Senior Lien Trust Indenture); or (iii) if the Department shall have on file with the Senior Lien Indenture Trustee a Statement of Projected Revenues, projecting that Revenues (as defined in the Senior Lien Trust Indenture) to the extent deemed available or to be available to pay Agency Expenses and Aggregate Debt Service will be sufficient to pay Agency Expenses and Aggregate Debt Service when due in the then current and each succeeding Bond Year, and as of the date of such Statement of Projected Revenues the Agency Assets (as defined in the Senior Lien Trust Indenture) are at least equal to 100% of the aggregate principal amount of Senior Lien Bonds then outstanding then Surplus Revenues may be used to pay principal, interest and redemption price on the Obligations or establish and maintain reserves or other funds and accounts as provided in the Junior Lien Trust Indenture.

The Department will be deemed to have met the Senior Lien Asset Test if (i) the Department shall have on file with the Senior Lien Indenture Trustee a Statement of Projected Revenues giving effect to a transfer and release of Surplus Revenues projecting that Revenues (as defined in the Senior Lien Trust Indenture) to the extent deemed available or to be available to pay Agency Expenses and Aggregate Debt Service on the Senior Lien Bonds will be sufficient to pay Agency Expenses and debt service on the Senior Lien Bonds when due in the then current and succeeding Bond Year; (ii) as of the date of such Statement of Projected Revenues the Agency Assets are at least equal to 102% of the aggregate principal amount of Senior Lien Bonds then outstanding; and (iii) amounts then on deposit in the Debt Service Reserve Fund and Mortgage Reserve Fund under the Senior Lien Trust Indenture equal the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement, respectively.

During such time as the Department is not meeting the Junior Lien Asset Test, amounts in the Residual Revenues Fund must be retained in the Residual Revenues Fund or transferred to the Acquisition Fund or the Special Redemption Fund, as directed by a Letter of Instructions accompanied by a Cashflow Certificate or, in the absence of such instructions, as required by the Series Supplements applicable to the Obligations then Outstanding. Pursuant to the Series Supplements applicable to the outstanding Obligations, amounts held in the Residual Revenues Fund for six months or more are required to be used to redeem outstanding Obligations unless the Department instructs otherwise pursuant to a Letter of Instructions accompanied by a Cashflow Certificate. If at any time the Department meets the Junior Lien Asset Test, then the Trustee must apply any amounts in the Residual Revenues Fund (in excess of those required to be maintained under the Junior Lien Trust Indenture in order to permit the Department to continue to meet the Junior Lien Asset Test) as follows:

(i) if so directed by a Letter of Instructions, the Trustee is required to transfer such amounts to the Acquisition Fund or the Special Redemption Fund or to remit such amounts to the Department to be used for any purpose authorized or permitted by the Act, free and clear of the pledge and lien of the Junior Lien Trust Indenture, as so provided in such Letter of Instructions; or

(ii) in the absence of a contrary direction in a Series Supplement or a Letter of Instructions, the Trustee is required to retain such amounts in the Residual Revenues Fund;

provided, however, that no such amounts may be applied in any way which would result in less than 90% of all amounts received by the Department with respect to the Mortgage Loans or the Department Loans being used for the following purposes: (a) to pay the principal or Redemption Price of or interest on or purchase price or otherwise to service the Obligations; (b) to reimburse the Department for Department Expenses, or to pay for Costs of Issuance; (c) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to the Program; (d) to make, acquire or refinance Mortgage Loans, Department Loans or other loans or mortgages financing residential real property in the State, and (e) to redeem or retire other obligations of the Department. For a description of the Junior Lien Asset Test see "THE JUNIOR LIEN TRUST INDENTURE - Expense Fund and Residual Revenues Fund."

The Department and the Trustee have covenanted in the Junior Lien Trust Indenture to enforce diligently, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all the Mortgage Loans, the Department Loans, the Mortgage Documents and the Program Documents, including the prompt payment of all amounts due thereunder. Neither the Department nor the Trustee shall release the obligations of any Mortgage Lender or Servicer under any Program Document, or any Mortgage Loan or Department Loan (except as permitted by a Program Document) and the Department shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Department, the Trustee, the related Bond Insurer or Credit Provider and the owners of the Obligations under or with respect to each Mortgage Loan, Department Loan, Mortgage Document and Program Document. Neither the Department nor the Trustee shall sell, assign, transfer or otherwise dispose of any Mortgage Loan or Department Loan or any of the rights of the Department with respect to any Mortgage Loan or Department Loan (other than for payment in full or upon foreclosure or liquidation, as permitted by any Program Document); provided, however, that, subject to any limitations in the applicable Series Supplement, the Department may direct the Trustee in writing to sell all or a portion of the Mortgage Loans or Department Loans in connection with the optional redemption of all or a corresponding amount of outstanding Obligations to which such Mortgage Loans or Department Loans relate, to the extent provided in the applicable Series Supplement, if the Department determines that such action will not adversely affect the ability of the Department to pay when due the Principal Amount or Redemption Price of and interest on any Obligations that remain Outstanding and if the Trustee shall be provided with written confirmation from each Rating Agency that such sale of Mortgage Loans or Department Loans will not result in a reduction or withdrawal of the rating then assigned by such Rating Agency to the Obligations. In such event, such Mortgage Loans or Department Loans may be so disposed of free and clear of the pledge of the Junior Lien Trust Indenture.

The Series 2002A Bonds are limited obligations of the Department and are payable solely from the Revenues and funds pledged for the payment thereof as more fully described herein. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, is obligated to pay the principal or redemption price of, or interest on, the Series 2002A Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power.

Certain Information as to Revenues, Debt Service and Department Expenses

On the basis of the Cashflow Statement (hereinafter defined) prepared in connection with the issuance of the Series 2002A Bonds, as discussed below, the Department expects that Surplus Revenues and amounts held under the Junior Lien Trust Indenture and the earnings thereon, will be sufficient to pay the principal amount or redemption price of and interest on the outstanding Obligations and the Series 2002A Bonds when due. In arriving at the foregoing conclusions, the Department has not considered the issuance of other additional Obligations, additional Senior Lien Bonds, or the application or investment of the proceeds thereof. Since Obligations issued under the Master Indenture will rank equally and ratably with the Series 2002A Bonds with respect to the security afforded by the Master Indenture and since Senior Lien Bonds rank in a higher priority than the Series 2002A Bonds, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Obligations or additional Senior Lien Bonds. Furthermore, while the Series 2002A Mortgage Loans made with the proceeds of the Series 2002A Bonds are pledged as security for the Senior Lien Bonds and the Series 2002A Bonds, revenues from such Series 2002A Mortgage Loans were not considered in preparing such Cashflow Statement.

Reserve Funds

The Junior Lien Trust Indenture establishes a Reserve Fund for the Obligations (the "Reserve Fund"). The Series 2002A Series Supplement establishes the Series 2002A Reserve Account within the Reserve Fund and provides for deposit into the Series 2002A Reserve Account of the Reserve Fund of amounts equal to the Series 2002A Reserve Account Requirement. The Department shall make such deposit, on the date of closing of the Series 2002A Bonds, out of funds available under and transferred from the Senior Lien Trust Indenture. Moneys in the Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 2002A Bonds or any other outstanding Obligations.

Cashflow Statement

The Department is required to deliver periodically a "Cashflow Statement" prepared or verified by a nationally recognized firm experienced in preparing mortgage revenue bond cashflows that is acceptable to the Rating Agencies comparing estimates of Revenues with scheduled debt service requirements, Trustee Fees, Rebate Analyst Fees, Department Expenses, Administrative Fees and any other expenses with respect to Outstanding Obligations. Under the terms of the Master Indenture, such Cashflow Statements must incorporate certain assumptions and Rating Agency requirements concerning Mortgage Loan, Department Loan and Senior Lien Mortgage Loan prepayments, reinvestment rates, expenses and certain other assumptions as provided in the Master Indenture. A Cashflow Statement is required to be prepared, among other things, as a condition to the issuance of the Series 2002A Bonds, the issuance of any additional Obligations, and the taking of certain other actions permitted under the Junior Lien Trust Indenture.

The Department has covenanted in the Junior Lien Trust Indenture that it will make, acquire or sell Mortgage Loans, Department Loans and Senior Lien Mortgage Loans, or purchase or redeem Obligations, including the Series 2002A Bonds, or take certain other actions permitted under the Junior Lien Trust Indenture, only if such actions are in accordance with its most recent Cashflow Statement unless otherwise permitted in the applicable Series Supplement.

OUTSTANDING OBLIGATIONS, SENIOR LIEN BONDS, MORTGAGE LOANS, MORTGAGE CERTIFICATES, AND RESERVE FUND INVESTMENTS

Outstanding Obligations

In addition to the Series 2002A Bonds to be issued, the Series 1994A Bonds are the only Obligations outstanding under the Junior Lien Trust Indenture. As of August 31, 2001, $11,811,312 in Series 1994A Bonds were outstanding under the Junior Lien Trust Indenture.

Senior Lien Bonds

As of August 31, 2001, $424,255,000 in Senior Lien Bonds consisting of fourteen issues of Senior Lien Bonds were outstanding under the Senior Lien Trust Indenture.

Mortgage Loans and Mortgage Certificates

As of August 31, 2001, $104,346,547 in Mortgage Loans and $290,668,023 in mortgage certificates were outstanding under the Senior Lien Trust Indenture and $12,461,336 in mortgage certificates were outstanding under the Junior Lien Trust Indenture.

Reserve Fund Investments

As of August 31, 2001, the Debt Service Reserve Account Requirement for the Senior Lien Bonds was $2,917,581 and the Reserve Account Requirement for the outstanding Obligations was $354,339. As of such date, both requirements were satisfied.

For detailed information concerning Mortgage Loans, Mortgage Certificates, Reserve Fund balances and investments, see "APPENDIX C – ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES" and "APPENDIX E – INVESTMENT OF FUNDS RELATING TO OUTSTANDING OBLIGATIONS AND SENIOR LIEN BONDS"

In addition to the foregoing, certain matters relating to the financial condition of the Single Family Trust Indenture (combined for Senior Lien Bonds and the Obligations) for the fiscal years ending August 31, 1999, August 31, 2000 and August 31, 2001 are summarized in "APPENDIX F - CERTAIN COMBINED FINANCIAL INFORMATION FOR SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE." Such information has been derived from the audited financial statements of the Department for each of such fiscal years.

THE SENIOR LIEN TRUST INDENTURE

General

The Senior Lien Trust Indenture, which includes the master indenture and each of the series supplements and amendments thereto relating to the Senior Lien Bonds, contains various covenants and security provisions, certain of which are summarized below. In addition, the Senior Lien Trust Indenture contains requirements for the purchase of mortgage loans and certain covenants with respect to applicable provisions of federal income tax law. Reference should be made to the Senior Lien Trust Indenture, a copy of which may be obtained from the Department, for a full and complete statement of its provisions.

Funds and Accounts

The following funds have been established under the master indenture: mortgage loan fund; cost of issuance fund; revenue fund; interest fund; principal fund; special redemption fund; debt service reserve fund; residual revenues fund; mortgage reserve fund; and expense fund. In addition, the series supplements create a rebate fund and, within each fund, separate accounts for each series or related series of Senior Lien Bonds. The accounts so created do not grant a priority of one series of Senior Lien Bonds over that of any other series of Senior Lien Bonds, but are for accounting purposes only.

Revenue Fund

All revenues are required to be deposited into the revenue fund promptly upon receipt by the Department. On or before each interest payment date on the Senior Lien Bonds which occurs other than on a January 1 or July 1, the Senior Lien Indenture Trustee will transfer from the revenue fund to the interest fund an amount which, when added to any amounts already on deposit therein, will equal the amount of interest to become due and payable on the Senior Lien Bonds on such interest payment date.

On or before each January 1 and July 1, and each date fixed for the redemption of Senior Lien Bonds, the Senior Lien Indenture Trustee is required to transfer amounts on deposit in the revenue fund representing mortgage loan principal payments at the Department's direction or as required by a series supplement to either the principal fund, the mortgage loan fund, or the special redemption fund. Pursuant to the master indenture and the series supplements, the Senior Lien Indenture Trustee is required to transfer all scheduled mortgage loan principal payments relating to a series of Senior Lien Bonds, to the principal account established for such series of Senior Lien Bonds, and to transfer all mortgage loan principal prepayments relating to a series of Senior Lien Bonds to the special redemption account for such series of Senior Lien Bonds. Notwithstanding the foregoing sentence, the Department may direct the applications of such mortgage loan principal payments and mortgage loan principal prepayments otherwise within six months of receipt of such amounts by a letter of instructions accompanied by a cashflow statement. The Senior Lien Indenture Trustee also must transfer from the revenue fund the other amounts on deposit therein in the following order of priority:

(a) first, to the interest fund, an amount, if any, which, when added to any amounts already on deposit therein, will equal the amount of interest to become due and payable on the Senior Lien Bonds on such interest payment date or redemption date;

(b) second, to the principal fund, an amount which, when added to any amounts already on deposit therein, will equal the principal amount of all Senior Lien Bonds maturing on such interest payment date and the redemption price of all Senior Lien Bonds becoming subject to scheduled mandatory redemption on such redemption date;

(c) third, to the expense fund, the amount or amounts specified in the series supplements applicable to the Senior Lien Bonds then outstanding as being necessary to pay Agency Expenses consisting of amounts to be paid to obtain or maintain supplemental mortgage security;

(d) fourth, to the debt service reserve fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the debt service reserve fund requirement;

(e) fifth, to the mortgage reserve fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the mortgage reserve fund requirement;

(f) sixth, to the expense fund, the amount then required for the payment of Agency Expenses (other than as described in clause (c) above), but not in excess of the maximum amount specified in the applicable series supplements;

(g) seventh, to the special mortgage loan fund, the amount, if any, specified in the most recent cashflow statement as required by the series supplement to maintain the tax-exempt status of the Senior Lien Bonds; and

(h) finally, to the residual revenues fund, the portion, if any, of the amount remaining in the revenue fund on such January 1, July 1, or redemption date after the foregoing transfers, which the Department directs to be so transferred.

Withdrawals from Funds to Pay Debt Service

If on any interest payment date on the Senior Lien Bonds, after giving effect to the transfers from the revenue fund described above, the amount in the interest fund or the principal fund is less than the amount required to make interest and principal payments then due, the Senior Lien Indenture Trustee shall transfer from the following funds in the following order of priority the amount of such deficit and apply such amount to pay interest and principal as necessary: (i) residual revenues fund; (ii) special redemption fund; (iii) mortgage reserve fund; (iv) mortgage loan fund; and (v) debt service reserve fund.

None of the following are deemed available under the Senior Lien Trust Indenture for the payment of debt service on the Senior Lien Bonds: (i) the moneys in the special redemption fund which are to be used to redeem Bonds as to which notice of redemption has been given or committed to the purchase of Senior Lien Bonds; (ii) moneys in the mortgage loan fund which are to be used to make, acquire, or refinance mortgage loans or mortgage certificates with respect to which the Department has entered into commitments with borrowers, servicers or master servicers or others; or (iii) mortgage loans and mortgage certificates credited to the mortgage loan fund.

Events of Default

Each of the following events is an "event of default" under the Senior Lien Trust Indenture: (i) default in the due and punctual payment of the principal or redemption price of any Senior Lien Bond when due; (ii) default in the due and punctual payment of any installment of interest on any Senior Lien Bond when due; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Senior Lien Trust Indenture or in the Senior Lien Bonds, and the continuance of such default for a period of 60 days after written notice thereof to the Department by the

Senior Lien Indenture Trustee or to the Department and to the Senior Lien Indenture Trustee by the owners of not less than 10% in principal amount of the Senior Lien Bonds then outstanding; or (iv) the commencement of various proceedings involving the Department in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, state or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the Department or for all or a substantial part of its property, and unless commenced by or consented to by the Department, their continuation for 90 days undismissed or undischarged.

Bondholders' Rights in the Event of Default

If an event of default occurs and is continuing, then the Senior Lien Indenture Trustee may and, upon the written request of the owners of not less than 25% in aggregate principal amount of the Senior Lien Bonds then outstanding, must, by written notice delivered to the Department, declare the principal of the Senior Lien Bonds then outstanding and the interest accrued thereon immediately due and payable; subject, however, to the right of the owners of more than 50% in aggregate principal amount of the Senior Lien Bonds then outstanding, by written notice to the Department and to the Senior Lien Indenture Trustee, to annul such declaration and destroy its effect at any time if all events of default, other than those arising from nonpayment of principal or interest due solely as a result of such acceleration, have been cured. Such annulment will not extend to nor affect any subsequent Event of Default nor impair or exhaust any right or power consequent thereon.

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

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

Application of Proceeds

The proceeds received by the Senior Lien Indenture Trustee in case of an event of default, together with all securities and other moneys which may then be held by the Senior Lien Indenture Trustee as a part of the trust estate, are required to be applied in order, as follows:

(a) to the payment of the reasonable and proper charges, expenses and liabilities of the Senior Lien Indenture Trustee;

(b) to the payment of the interest and principal then due on the Senior Lien Bonds, as follows:

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

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

(c) to the payment of the amounts required for reasonable and necessary Agency Expenses.

Trustee

Bank One, National Association, is currently the Senior Lien Indenture Trustee for all series of Senior Lien Bonds issued under the Senior Lien Trust Indenture.

Depositories

The Department may appoint one or more depositories to hold all or a designated portion of the moneys and investments subject to the lien and pledge of the Senior Lien Trust Indenture (other than moneys and securities required to be held in the interest fund, the principal fund and the special redemption fund). Any depository appointed by the Department must be: (i) the Comptroller of Public Accounts, as successor to the State Treasurer of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company; or (ii) a bank or trust company organized under the laws of the United States or any state thereof and having capital stock and surplus of at least $50,000,000 which the Department determines to be capable of properly discharging its duties in such capacity and which is acceptable to the Senior Lien Indenture Trustee. See "THE TEXAS TREASURY SAFEKEEPING COMPANY."

Supplemental Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture may be executed and delivered by the Department and the Senior Lien Indenture Trustee, without the consent of any owners of the Senior Lien Bonds: (i) to authorize Senior Lien Bonds of a series and to specify the matters relative to such Senior Lien Bonds which are not contrary to or inconsistent with the Senior Lien Trust Indenture; (ii) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Senior Lien Trust Indenture; (iii) to insert such provisions clarifying matters or questions arising under the Senior Lien Trust Indenture as are necessary or desirable and are not contrary to or inconsistent with the Senior Lien Trust Indenture as theretofore in effect; (iv) to grant to or confer upon the Senior Lien Indenture Trustee for the benefit of the Bondholder any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Senior Lien Indenture Trustee; (v) to close the Senior Lien Trust Indenture against, or provide limitations on, the delivery of Senior Lien Bonds; (vi) to add to the covenants of the Department in the Senior Lien Trust Indenture other covenants which are not inconsistent with the Senior Lien Trust Indenture; (vii) to add to the restrictions in the Senior Lien Trust Indenture other restrictions to be observed by the Department which are not inconsistent with the Senior Lien Trust Indenture; (viii) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Senior Lien Trust Indenture that is not inconsistent with the Senior Lien Trust Indenture; (ix) to confirm the subjection to any lien or pledge created by the Senior Lien Trust Indenture of the trust estate or any other moneys; (x) to modify any of the provisions of the Senior Lien Trust Indenture in any other respect, effective only after all Senior Lien Bonds of any series outstanding at the date of adoption of such supplemental indentures shall cease to be outstanding; (xi) to amend the Senior Lien Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; (xii) to add to the definition of investment securities in accordance with the provisions of such definition; or (xiii) to make any other change in the Senior Lien Trust Indenture which does not, in the opinion of the Senior Lien Indenture Trustee, materially and adversely affect the rights of the holders of the Senior Lien Bonds.

Amendment of Indenture with Consent of Bondholders

The Department and the Senior Lien Indenture Trustee, at any time and from time to time, may execute and deliver a supplemental indenture for the purpose of making any modification or amendment to the Senior Lien Trust Indenture, but only with the prior written consent of the holders of at least 2/3 in aggregate principal amount of the Senior Lien Bonds then outstanding at the time such consent is given, and in case less than all of the several series of Senior Lien Bonds then outstanding are affected by the modification or amendment, of the holders of at least 2/3 in principal amount of the Senior Lien Bonds of each series so affected and outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Senior Lien Bonds of any particular series and maturity remain outstanding, the consent of the holders of such Bonds will not be required and such Bonds will not be deemed to be outstanding for the purpose of any calculation of outstanding Senior Lien Bonds under the Senior Lien Trust Indenture. Notwithstanding the foregoing, no modification or amendment contained in any such supplemental indenture may permit any of the following, without the consent of each owner of Senior Lien Bonds whose rights are affected thereby: (i) a change in the terms of maturity or redemption of any Senior Lien Bond or of any installment of interest thereon; (ii) a reduction in the principal amount or redemption price of any Senior Lien Bond or in the rate of interest thereon; (iii) the creation of a lien on or a pledge of the revenues or any part thereof, other than the lien and pledge of the Senior Lien Trust Indenture or as permitted by the Senior Lien Trust Indenture: (iv) the granting of a preference or priority of any Senior Lien Bond or Senior Lien Bonds over any other Senior Lien Bond or Senior Lien Bonds; or (v) a reduction in the aggregate principal amount or classes of Senior Lien Bonds of which the consent of the holders is required to effect any such modification or amendment. For the purposes of the Senior Lien Trust Indenture, a series is deemed to be affected by a modification or amendment of the Senior Lien Trust Indenture if the same adversely affects or diminishes the rights of the owners of Senior Lien Bonds of such series. The Senior Lien Indenture Trustee is required to determine whether or not in accordance with the foregoing powers of amendment Senior Lien Bonds of any particular series or maturity would be affected by any modification or amendment of the Senior Lien Trust Indenture and any such determination will be binding and conclusive on the Department and all holders of Senior Lien Bonds.

INVESTMENT OF FUNDS

Moneys, if any, in the Acquisition Fund, the Reserve Fund, the Revenue Fund, the Residual Revenues Fund, and the Rebate Fund will be invested by the Texas Treasury Safekeeping Trust Company pursuant to the Depository Agreement in Investment Securities. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY." Moneys in the Interest Fund, the Principal Fund, and the Special Redemption Fund will be held and invested by the Trustee, upon the direction of the Department, in Investment Securities. Moneys in the Cost of Issuance Fund, and the Expense Fund will be held by the Department and invested, if at all, in accordance with the Department's investment policy. Moneys held or invested in all Funds and Accounts (except for the Rebate Fund) under the Junior Lien Trust Indenture are for the equal and ratable benefit of all owners of the Obligations.

For information concerning the investment of Funds relating to the Series 2002A Bonds, the Outstanding Obligations and the Senior Lien Bonds, see "APPENDIX E - INVESTMENT OF FUNDS RELATING TO OUTSTANDING OBLIGATIONS AND SENIOR LIEN BONDS."

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

Failure of the Department to realize a full return of the principal of its investments could have a material adverse effect upon its ability to pay the Obligations when due.

ADDITIONAL OBLIGATIONS

Various series of Obligations may be issued as provided in the Master Indenture on a parity with the Series 2002A Bonds, secured by a pledge of and lien on the Trust Estate. In addition, the Department may issue Subordinated Obligations which are subordinated in terms of repayment of the Obligations. As a condition to the issuance of additional Obligations, including Subordinated Obligations, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the Series of Obligations will be legally issued in accordance with the Master Indenture and the Act. The Department must also deliver a Cashflow Statement which gives effect to the issuance of such additional Obligations as described above under the subheading "Cashflow Statement." The Department has reserved the right to adopt one or more additional general bond indentures and to issue other obligations payable from sources other than the Trust Estate. In addition, pursuant to the Senior Lien Trust Indenture, the Department has reserved the right to issue additional Senior Lien Bonds upon compliance with certain requirements as set forth therein.

PLAN OF FINANCE

The Series 2002A Bonds are being issued to make and acquire Series 2002A Mortgage Loans (consisting of both Mortgage Loans and Department Loans) and paying the Costs of Issuance of the Series 2002A Bonds.

SOURCES AND USES OF FUNDS

Sources of Funds

Series 2002A Bond Proceeds	$10,000,000
Funds Transferred from Senior Lien Trust Indenture	300,000
Accrued Interest	50,628
Total Sources of Funds	$10,350,628

Uses of Funds

Series 2002A Acquisition Account	$ 9,600,786
Series 2002A Reserve Account	300,000
Underwriting Fee	113,464
Costs of Issuance	285,750
Accrued Interest	50,628
Total Uses of Funds	$10,350,628

THE PROGRAM AND THE MORTGAGE LOANS

General

The Department has established the Program pursuant to the Act for the purpose of financing single-family mortgage loans, multifamily mortgage loans, and downpayment assistance for eligible very low income first-time homebuyers in connection with the purchase or development of homes located primarily in rural and border regions of the State of Texas. The Department may also determine from time to time to add other permitted programs to the Program financed with proceeds of the Series 2002A Bonds. Under the Program Documents, the Department has agreed to purchase Series 2002A Mortgage Loans (consisting of both Mortgage Loans and Department Loans) originated by the Mortgage Lenders and to transfer title to such Series 2002A Mortgage Loans to the Senior Lien Indenture Trustee to be held as security for the Senior Lien Bonds, and on a subordinated basis, for the Obligations. **Revenues from the Series 2002A Mortgage Loans were not considered in determining whether there would be sufficient Revenues under the Junior Lien Trust Indenture giving effect to the issuance of the Series 2002A Bonds.**

The Series Supplements with respect to the Obligations, and the Department's guidelines concerning the Program to be carried out with the proceeds thereof, contain certain requirements and restrictions which will be imposed on all Series 2002A Mortgage Loans. The Department has established certain procedures and safeguards described below under the subheading "Compliance with Program Guidelines" to help verify that all Series 2002A Mortgage Loans meet the eligibility requirements. Those restrictions and requirements are summarized below.

Single-Family Program

General. The Department will make available a portion of the proceeds of the Series 2002A Bonds for the purpose of financing Series 2002A Mortgage Loans (including both Mortgage Loans and Department Loans) made to eligible Borrowers (as described below) for the purchase of single-family homes. Although the Department has not as yet defined all of the programmatic terms applicable to Series 2002A Mortgage Loans made for single-family purposes, it is currently anticipated that the Series 2002A Mortgage Loans will finance the purchase of eligible properties for very low income first-time homebuyers located primarily in border and rural regions of Texas. The Department has covenanted in the Junior Lien Trust Indenture to define the Program related to the proceeds of the Series 2002A Bonds and to enter into agreements, if necessary, with Mortgage Lenders, Servicers and any other necessary parties. The following paragraphs describe the limitations on eligible borrowers, eligible property and Series 2002A Mortgage Loans made for single-family purposes as currently expected to be applied by the Department.

Eligible Borrowers. Each Series 2002A Mortgage Loan for single-family purposes is required to be made to a person whose family income does not exceed 60% of the area median gross income for the area in which the residence to be financed is located (the "Applicable Median Family Income"). The Department, however, reserves the right to adjust the maximum income requirement set forth in the preceding sentence to achieve maximum program efficiency. The current income limitations are set forth in APPENDIX G hereto. In addition, to be eligible for a Series 2002A Mortgage Loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such Series 2002A Mortgage Loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans, certain exception loans hereinafter described and certain loans with respect to properties subject to a contract for deed, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the Mortgage; and (iii) who has not had an existing mortgage on the residence to be financed with such Series 2002A Mortgage Loan at any time prior to the execution of the Mortgage, other than certain permitted temporary financing mortgages. A further restriction applying to Borrowers is that the Borrower may not have Liquid Assets in excess of $10,000.

Eligible Property. Each residence financed with a Series 2002A Mortgage Loan must consist of real property and improvements permanently affixed thereon which is located within the State of Texas. Each Residence must be a single-family, owner-occupied attached or detached structure, single-family condominium unit or a single unit in a planned unit development ("PUD") or a two- to- four-family Residence in which the Borrower occupies one unit and must have an estimated remaining economic life at least equal to the term of the Series 2002A Mortgage Loan. Each Residence financed with a Series 2002A Mortgage Loan (other than those made for downpayment assistance) must have an acquisition cost not exceeding $115,765 or such other amount as the Department may determine from time to time.

General Restrictions on Mortgage Loans. In addition to such further restrictions that may be imposed upon Mortgage Loans by any Supplemental Indenture, Mortgage Loans (but not Department Loans) made, acquired, or refinanced, directly or indirectly, by the Department must meet the following requirements at the date of the making, acquisition or refinancing thereof:

(a) each Mortgage Loan must be a loan to provide financing, whether interim or permanent or both, for the acquisition, construction, rehabilitation or improvement of residential housing consisting of a one- to four-unit dwelling located in the State of Texas to be owned and occupied by persons and families of very low income, low income and persons and families of moderate income, as determined by the Department in accordance with the Act;

(b) each Mortgage Loan must comply in all respects with the applicable requirements of the Act and the Series Supplement applicable to the Obligations the proceeds of which are used to make, acquire or refinance, directly or indirectly, such Mortgage Loan;

(c) each Mortgage Loan must be secured by a Mortgage that creates a first or subordinate lien on real property consisting of a one to four-unit residence located within the State; and

(d) each Mortgage Loan shall have such other characteristics as specified in a Supplemental Indenture such that the financing thereof under the Junior Lien Trust Indenture and the inclusion thereof as part of the Trust Estate will not impair, in and of itself, any rating on the Obligations then in effect, as evidenced by a letter, delivered at the time of issuance of a Series of Obligations, from the Rating Agencies rating the applicable Series of Obligations.

Specific Series 2002A Mortgage Loan Terms. The Series 2002A Mortgage Loans will (i) bear interest at percentage per annum to be determined by the Department, (ii) have a term not to exceed 30 years and may have substantially equal payments of principal due on the first day of each month, (iii) not be assumable without the prior approval of the Department, and then only in connection with the assumption of the first lien mortgage loan and if certain requirements are met and upon payment of certain assumption fees and (iv) be subject to prepayment at any time without penalty.

Downpayment Assistance

In connection with the Program, a portion of the proceeds of the Series 2002A Bonds will be made available for downpayment assistance to Borrowers who acquire single-family residences with mortgage loans pursuant to other single-family programs of the Department. Downpayment assistance will be made available in accordance with the provisions of, and the Borrower must meet the requirements of, the applicable Department single-family program. The Department currently expects to restrict downpayment assistance provided with proceeds of the Series 2002A Bonds to eligible borrowers of very low income (not exceeding 60% of Applicable Median Family Income) in connection with the purchase of homes located primarily in rural and border regions of the State of Texas.

Multifamily Program

The Department also expects to make available a portion of the proceeds of the Series 2002A Bonds for the purpose of making Department Loans to finance the acquisition, construction and/or rehabilitation of multifamily developments. Although the Department currently expects to restrict such Department Loans for multifamily purposes to developments located primarily in rural and border regions of the State of Texas, the Department has not as yet defined other parameters or requirements for such multifamily developments or for the borrowers of such Department Loans. It is expected that the Department's Board will make such determinations on a case-by-case basis.

Compliance with Program Guidelines

Each Mortgage Lender with respect to the Series 2002A Mortgage Loans will be required to follow certain procedures in the origination of Series 2002A Mortgage Loans to insure compliance with the mortgage eligibility requirements and other requirements applicable to the Series 2002A Mortgage Loans. These procedures will include, but may not be limited to, the following: (i) obtaining affidavits of the Borrower and seller and certificates of the real estate agent, if any, providing and certifying certain information regarding Borrower income, home acquisition cost, and other loan information; (ii) reviewing the contents of the affidavits and certificates with the persons executing them prior to the execution thereof; (iii) obtaining signed or certified copies of the Borrower's federal income tax returns for the preceding three years to verify that the Borrower did not claim deductions for taxes or interest on indebtedness with respect to real property constituting his or her principal residence or a Borrower's affidavit that he or she was not required to file such a return during one or more of the preceding three years; (iv) performing such additional investigations as may be appropriate under the circumstances to verify that the requirements of the Program are satisfied as of the date of the execution of the Mortgage; (v) reviewing the draft settlement statement to assure that all fees and charges and settlement and financing costs comply with the applicable requirements; (vi) preparing, executing and delivering a certificate relating to compliance with the requirements set forth immediately above; and (vii) carrying out such additional verification procedures as may be reasonably requested by the Department or the Trustee. If any Series 2002A

Mortgage Loan fails to meet the guidelines established by the Department, the originating Mortgage Lender will be required to correct such failure within a reasonable time after such failure is discovered by either repaying the non-qualifying Mortgage Loan in full or by replacing the non-qualifying Mortgage Loan with a Series 2002A Mortgage Loan which meets the applicable requirements.

ASSUMPTIONS

Assumptions

The ability of the Department to pay the principal of and interest on the Series 2002A Bonds depends upon the receipt of sufficient and timely payments of principal of and interest on the Senior Lien Mortgage Loans, the Mortgage Loans and Department Loans and the investment or reinvestment of moneys held under the Junior Lien Trust Indenture and the Senior Lien Trust Indenture. Timely payment of principal of and interest on the Series 2002A Bonds is anticipated to occur based on, among other things, the following assumptions:

(a) no mortgage payments are received on the Series 2002A Mortgage Loans;

(b) the Trustee will faithfully perform its duties and discharge its obligations under the Junior Lien Trust Indenture and the Depository Agreement in a timely and non-negligent manner, and in the event the Trustee (or any affiliate organization thereof) becomes involved in any bankruptcy proceedings such development will not result in any of the moneys on deposit in the Funds not being readily available to the Department;

(c) the Department will utilize a portion of the available Surplus Revenues to redeem the highest coupon Senior Lien Bonds and Series 2002A Bonds available to be redeemed; and

(d) all Funds held pursuant to the Junior Lien Trust Indenture and Senior Lien Trust Indenture not otherwise invested in Investment Securities are assumed to earn interest at a rate of 1.25% per annum until March 1, 2004, and 2.50% per annum thereafter.

The assumptions set forth above are based on current market conditions and practices, and subsequent events may not correspond to such assumptions.

Termination of Mortgage Loans

Mortgage Loans may be terminated prior to final maturity as a result of Mortgage Loan principal payment, default, sale, condemnation, casualty loss or noncompliance with the Program. All Mortgage Loan principal payments in full or other payments in respect of early termination will be deposited in the Special Redemption Fund and may be used to redeem Series 2002A Bonds at par prior to their scheduled maturity.

The scheduled maturity of the Series 2002A Bonds assumes receipt of no amounts representing Mortgage Loan principal payments on the Senior Lien Mortgage Loans, the Mortgage Loans and Department Loans. The speed at which the Senior Lien Mortgage Loans prepay will affect the amount of Series 2002A Mortgage Loans that may be made. There is no completely reliable statistical base with which to predict the level of Mortgage Loan principal payments in full or other early termination of the Mortgage Loans and the resulting effect on the average life of the Series 2002A Bonds.

MORTGAGE LOAN PRINCIPAL PAYMENTS MADE WITH RESPECT TO THE SENIOR LIEN MORTGAGE LOANS, MORTGAGE LOANS AND DEPARTMENT LOANS, TOGETHER WITH

SURPLUS REVENUES AND OTHER AMOUNTS, WILL RESULT IN THE REDEMPTION OF SERIES 2002A BONDS AT PAR PRIOR TO FINAL MATURITY. IT IS PROBABLE THAT A SUBSTANTIAL AMOUNT, IF NOT ALL, OF THE SERIES 2002A BONDS WILL BE REDEEMED WITHOUT PREMIUM EARLIER THAN THEIR STATED MATURITIES. SEE "SERIES 2002A BONDS - REDEMPTION PROVISIONS."

Availability of Remedies

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

THE JUNIOR LIEN TRUST INDENTURE

General

The Junior Lien Trust Indenture, which includes the Master Indenture and the Series Supplement thereto relating to the Series 2002A Bonds, contains various covenants and security provisions, certain of which are summarized below. In addition, the Junior Lien Trust Indenture contains requirements for the purchase of Mortgage Loans and Department Loans and certain covenants with respect to applicable provisions of federal income tax law. Reference should be made to the Junior Lien Trust Indenture, a copy of which may be obtained from the Department, for a full and complete statement of its provisions.

Funds and Accounts

The following Funds have been established under the Master Indenture: Acquisition Fund; Cost of Issuance Fund; Revenue Fund; Interest Fund; Principal Fund; Special Redemption Fund; Residual Revenues Fund; Expense Fund; and Reserve Fund.

The Series Supplements create within each Fund an account relating to each series of the Obligations, including the Series 2002A Bonds, as well as establishing a Rebate Fund for the Series 1994A Bonds. The accounts so created do not grant a priority of one Series of Obligations over that of any other Series of Obligations, but are for accounting purposes only.

Acquisition Fund

The Trustee is required to apply amounts in the Acquisition Fund to pay the costs of making, acquiring or refinancing Mortgage Loans and Department Loans, as applicable. Any such disbursements are required to be made within the period specified in the applicable Series Supplement or an applicable Letter of Instruction for the Obligations as described herein. The Trustee is required to transfer amounts in the Acquisition Fund relating to an account established for each Series of the Obligations to the Special Redemption Fund if required by the Series Supplement for such Series to pay the redemption price of Obligations of each Series to be redeemed or the purchase price of Obligations to be purchased. To the extent required by the provisions of the Master Indenture summarized below under the subheading "Withdrawal from Funds to Pay Debt Service," amounts in the

Acquisition Fund may be applied to the payment of principal or redemption price of and interest on the Obligations.

Cost of Issuance Fund

Amounts credited to the Cost of Issuance Fund may be applied to pay Costs of Issuance. If any amounts remain on deposit in the Cost of Issuance Fund 180 days after the date of issue of the Series 2002A Bonds, such amounts shall be paid to the Department to be used for any lawful purpose.

Revenue Fund

All Revenues are required to be deposited into the Revenue Fund promptly upon receipt by the Department. In order for funds to be received as Revenues under the Junior Lien Trust Indenture, they must first be determined to be Surplus Revenues under the Senior Lien Trust Indenture. Under the terms of the Senior Lien Trust Indenture, Surplus Revenues must be transferred to the Revenue Fund of the Junior Lien Trust Indenture to the extent that payments have been received on any Mortgage Loans, to the extent of 47.884% of the principal and interest payments received on the Series 1983A Mortgage Loans to the extent of amounts necessary for the payment of any scheduled debt service due on the Obligations, and to the extent of amounts necessary to replenish the Reserve Fund. The Series Supplements applicable to the Series 1994A Bonds provide that if, on any rebate computation date, the Department determines that amounts must be set aside in the account of the Rebate Fund applicable to the Series 1994A Bonds, then the Department shall direct the Trustee to transfer such amount from the account of the Revenue Fund relating to the Series 1994A Bonds to the Rebate Fund.

On or before each interest payment date and any other date fixed for the payment of principal of or for the redemption of any Obligations, the Trustee is required to transfer from each Account in the Revenue Fund all amounts on deposit therein, for the following purposes and in the following order of priority:

(a) first, to the related Account in the Interest Fund, an amount, if any, which, when added to any amounts already on deposit therein, will equal the amount of interest to become due and payable on the related Series of Obligations on such interest payment date or redemption date;

(b) second, to the related Account in the Principal Fund, an amount which, when added to any amounts already on deposit therein, will equal the principal amount of all Obligations of the related Series maturing on such interest payment date and the redemption price of all related Series of Obligations becoming subject to scheduled mandatory redemption on such redemption date;

(c) third, to the related Account in the Expense Fund, an amount sufficient to pay, when due (and to pay any amounts which are overdue) (i) the Bond Insurance premium and other insurance policy premiums as specified in the related Series Supplement, other than such premiums which are payable from the Cost of Issuance Fund; (ii) the Credit Support fee as specified in the related Series Supplement, other than such fees which are payable from the Cost of Issuance Fund; (iii) the Trustee's Fee for such Series; (iv) the Administrative Fee, if any, for such Series; (v) any other fees relating to a Series of Obligations as set forth in the related Series Supplement; and (vi) amounts required to pay for rebate or other yield calculations and to pay for an annual audit of the Obligations of the related Series, to the extent provided in a Series Supplement; but in no event in excess of the maximum amount or amounts specified in the Series Supplements applicable to the Obligations then Outstanding;

(d) fourth, to the related Account in the Reserve Fund, the amount required, if any, to restore the amount on deposit therein to the Reserve Fund Requirement for such Series of Obligations;

(e) fifth, to the extent provided in a Series Supplement, to the related Account in the Special Redemption Fund to pay the Redemption Price of the Obligations of the related Series subject to unscheduled mandatory redemption or subject to optional redemption;

(f) sixth, to the related Account in the Credit Support Fund to the extent provided in a Series Supplement to reimburse the Bond Insurer or Credit Provider for amounts advanced under the related Bond Insurance or Credit Support plus interest thereon and any other amounts payable to the Bond Insurer or Credit Provider pursuant to the related Series Supplement;

(g) seventh, subject to limitations on Department Expenses, to the Expense Fund to pay Department Expenses which the Department directs pursuant to a Letter of Instructions;

(h) eighth, to any Account within the Acquisition Fund to finance the making, acquisition or refinancing of Mortgage Loans or Department Loans, which the Department directs pursuant to a Letter of Instructions to be so transferred or which is required to be so transferred by a Series Supplement applicable to a Series of Obligations; and

(i) finally, to the related Account in the Residual Revenues Fund, the portion, if any, of the amount remaining in the Revenue Fund on each March 1, September 1 or other redemption date after the forgoing transfers, which the Department directs by a Letter of Instructions to be so transferred or which is required to be so transferred by the Series Supplement applicable to the related Series of Obligations then Outstanding.

Pursuant to the Series 2002A Series Supplement, the Trustee is required to transfer to the Series 2002A Special Redemption Account amounts representing repayment of the Series 2002A Mortgage Loans for redemption of Series 2002A Bonds on each March 1 and September 1. Additional amounts representing Surplus Revenues which may be released under the Senior Lien Trust Indenture semiannually will be deposited to the Revenue Fund for application as provided in the preceding paragraph, including the making of additional Series 2002A Mortgage Loans. To the extent moneys have been on deposit in the Revenue Fund for a period of six months or more, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, the Trustee is required to transfer such amounts to the related Account in the Residual Revenues Fund.

Interest Fund and Principal Fund

The Trustee is required to pay out of the Interest Fund on each interest payment date or date of redemption, the amount required for the interest payment on such date. The Trustee is required to pay out of the Principal Fund by each date on which Obligations mature or become subject to scheduled mandatory redemption, the amount required for the payment of the principal amount of Obligations maturing and the Redemption Price of the Bonds subject to scheduled mandatory redemption.

Special Redemption Fund

Amounts in the Special Redemption Fund are required to be applied by the Trustee to pay the redemption price of the Obligations subject to redemption (other than by scheduled mandatory redemption), as determined in a Series Supplement and to the extent applicable, in a Letter of Instructions accompanied by a Cashflow Certificate or, at the direction of the Department, may be transferred to the Revenue Fund if notice of redemption has not been given or such amounts have not been committed to the purchase of Obligations; provided, however, that, with respect to the Series 2002A Bonds, the amounts on deposit in the series account within the Special Redemption Fund are required to be applied to redeem the Series 2002A Bonds on each March 1 or September

1, unless the Trustee is given instructions otherwise by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate. See "THE SERIES 2002A BONDS – Redemption Provisions."

The Trustee, at any time at the direction of the Department, is required to apply amounts available in the Principal Fund or the Special Redemption Fund to pay the purchase price of the Series 2002A Bonds which the Department may purchase at a price (excluding accrued interest including any brokerage or other charges), not exceeding the greater of the applicable principal amount or the applicable redemption price, if any, of such Obligations.

Expense Fund and Residual Revenues Fund

Amounts in the Expense Fund may be paid out from time to time by the Department to pay, to the extent applicable to a Series of Obligations, the Bond Insurance Premium and any other insurance policy premiums, the Credit Support fee, the Administrative Fee, the Rebate Analysts' Fee, Department Expenses, the Trustee's Fee and any other amounts provided in a Series Supplement.

During such time as the Department is not meeting the Junior Lien Asset Test, amounts in the Residual Revenues Fund are required to be retained in the Residual Revenues Fund or transferred to the Acquisition Fund or the Special Redemption Fund, as directed by a Letter of Instructions from the Department accompanied by a Cashflow Certificate or, in the absence of such instructions, as may be required by the applicable Series Supplements. Pursuant to the Series 2002A Series Supplement on each March 1 and September 1, amounts in the Series 2002A Residual Revenues Account are required to be transferred to the Series 2002A Special Redemption Account to be applied to the redemption of Series 2002A Bonds from (i) excess Revenues and (ii) amounts representing principal payments on the Series 2002A Mortgage Loans and the Senior Lien Mortgage Loans. See "THE SERIES 2002A BONDS - Redemption Provisions."

The Department will be deemed to have met the Junior Lien Asset Test if: (i) the Department has on file with the Trustee a Cashflow Statement, together with notice from the Department that a copy of such Cashflow Statement has been delivered to the Bond Insurer or Credit Provider for any affected Series of Obligations, giving effect to a transfer and release proposed as described in the next paragraph projecting that Revenues to the extent deemed available to pay Department Expenses and aggregate debt service on all Obligations will be sufficient to pay Department Expenses and aggregate debt service on all Obligations and Senior Lien Bonds when due in the then current and each succeeding Obligation Year; (ii) as of the date of such Cashflow Statement the Department Assets are at least equal to 102% of the aggregate principal amount of Senior Lien Bonds and Obligations then Outstanding; and (iii) amounts then on deposit in each Reserve Account are equal to each Reserve Account Requirement.

If at any time the Department meets the Junior Lien Asset Test, then the Trustee is required to apply amounts in the Residual Revenues Fund (in excess of those required to be maintained under the Master Indenture in order to permit the Department to continue to meet the Junior Lien Asset Test) as follows: (i) the Trustee is required to transfer such amounts to the Acquisition Fund or the Special Redemption Fund or remit such amounts to the Department to be used for any purpose authorized or permitted by the Act, free and clear of the pledge and lien of the Master Indenture, as so directed by a Letter of Instructions from the Department; or (ii) in the absence of a contrary direction in a Series Supplement or a Letter of Instructions, the Trustee is required to retain such amounts in the Residual Revenues Fund; provided, however, that no such amounts may be applied in any way which would result in less than 90% of all amounts received by the Department with respect to the Mortgage Loans or the Department Loans being used for the following purposes: (a) to pay the principal or Redemption Price of or interest on or purchase or otherwise to service the Obligations; (b) to reimburse the Department for Department Expenses, or to pay, for Costs of Issuance; (c) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to a Program; (d) to make, acquire or refinance Mortgage Loans, Department Loans or other loans or mortgages financing residential real property in the State; and (e) to redeem or retire other obligations of the Department.

Reserve Fund

On the Issuance Date, the Trustee is required to deposit into the Series 2002A Reserve Account, the Series 2002A Reserve Account Requirement. The Department shall make such deposit out of funds available under and transferred from the Senior Lien Trust Indenture. Thereafter, on each March 1 and September 1, the Trustee is required to transfer any amounts required pursuant to the Junior Lien Trust Indenture to restore the amount on deposit in the Series 2002A Reserve Account to the Series 2002A Reserve Account Requirement.

Moneys on deposit in the Series 2002A Reserve Account will be applied to pay the Principal Amount or Redemption Price of and interest on the Series 2002A Bonds when due, if the money in the Series 2002A Principal Account or the Series 2002A Interest Account, as applicable, are insufficient for such purpose.

On each March 1 and September 1, any moneys in the Series 2002A Reserve Account in excess of the Series 2002A Reserve Account Requirement after making the required payments of principal of and interest on the Series 2002A Bonds shall be transferred to the related Account in the Revenue Fund.

Withdrawals from Funds to Pay Debt Service

If on any interest payment date on the Obligations, after giving effect to the transfers from the Revenue Fund described above, the amount in the Account within the Interest Fund or the Principal Fund relating to a Series of Obligations is less than the amount required to make interest and principal payments then due on such Obligations, the Trustee is required to transfer from the related Accounts within the following Funds in the following order of priority the amount of such deficit and apply such amount to pay interest and principal as necessary: (i) Residual Revenues Fund; (ii) Reserve Fund; (ii) Special Redemption Fund; and (iv) Acquisition Fund.

If after making the aforementioned withdrawals, amounts available are insufficient to pay the principal of and interest on a Series of Obligations then due and payable, the Trustee is required to apply funds available in any other Account (and in the following order of priority) within the Interest Fund, Principal Fund, Revenue Fund, Residual Revenues Fund, Special Redemption or Acquisition Fund to pay such principal or interest.

None of the following are deemed available under the Junior Lien Trust Indenture for the payment of debt service on the Obligations: (i) moneys in the Special Redemption Fund which are to be used to redeem Obligations as to which notice of redemption has been given or committed to the purchase of Obligations; (ii) moneys in the Acquisition Fund which are to be used to finance Mortgage Loans or Department Loans with respect to which the Department has entered into commitments with applicable Servicers, Borrowers, Mortgage Lenders or others or (iii) moneys in the Rebate Fund.

Investments

Moneys held in the Acquisition Fund, the Revenue Fund, the Rebate Fund, the Residual Revenues Fund, the Special Redemption Fund and the Reserve Fund are required to be invested and reinvested by any Depository holding all or a portion of the moneys in such Funds or by the Trustee if there is no Depository, in accordance with instructions from the Department and moneys held in the Cost of Issuance Fund and the Expense Fund are required to be invested and reinvested by the Department or by any Depository holding all or a portion of the moneys in such Funds, in accordance with instructions from the Department, to the fullest extent practicable and if permitted by the Act, in Investment Securities the principal of which the Department estimates will be received not later than such times as will be necessary to provide moneys when needed for payments to be made from each such Fund. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

Earnings, profits and losses resulting from the investment of money in the Cost of Issuance Fund, the Expense Fund and any Rebate Fund shall at all times be credited to and retained in the respective Fund to which such earnings, profits and losses relate. Interest earned from investing any moneys in any Fund or profits realized from any investments in such Fund are required to be retained in such Fund until it contains the amount required by the Junior Lien Trust Indenture to be deposited therein; thereafter such earnings and profits, net of any losses (except that which represents a return of accrued interest paid in connection with the purchase by the Department, the Trustee or any Depository of any investment or as otherwise provided in a Series Supplement), are required to be transferred to the Revenue Fund.

Other Department Covenants

Books, Accounts and Records. The Department is required to keep proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries must be made of its transactions in accordance with generally accepted accounting principles. The Department is required to file annually, within 180 days after the close of each Obligation Year, with the Trustee, and otherwise as provided by law, a copy of an annual report for such year, accompanied by an accountant's certificate, including the following statements in reasonable detail: a statement of financial position as of the end of such Obligation Year; and a statement of Revenues and Department Expenses for such Obligation Year.

Department Expenses. The Department cannot incur Department Expenses payable from the Expense Fund in any year if the incurrence of such Expenses so incurred would impair the ability of the Department to pay Department Expenses allocable by the Department to the Obligations, the Junior Lien Trust Indenture or the Program. In no event can the Department incur Department Expenses in excess of the reasonable and necessary amount of such Expenses, and cannot expend any amount from the Expense Fund for such Expenses for such year in excess of the amounts provided therefor in the annual budget as originally adopted or as amended.

Statement of Projected Revenues and Certain Calculations. In order to cause Surplus Revenues to be released under the Senior Lien Trust Indenture to pay debt service on the Obligations and to cause the other transfers from the Revenue Fund held under Junior Lien Trust Indenture to occur, the Department has covenanted in the Sixteenth Supplement to provide the Senior Lien Indenture Trustee with the Statement of Projected Revenues and a calculation demonstrating the ratio of Agency Assets to the aggregate principal amount of the Senior Lien Bonds then outstanding as required by the Senior Lien Asset Test.

Events of Default

Each of the following events is an "Event of Default" under the Junior Lien Trust Indenture: (i) default in the due and punctual payment of the Principal Amount or Redemption Price of any Obligation when due; (ii) default in the due and punctual payment of any installment of interest on any Obligation when due; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Junior Lien Trust Indenture or in the Obligations, and the continuance of such default for a period of 30 days after written notice thereof to the Department and each Bond Insurer and Credit Provider by the Trustee or the Bond Insurer or to the Department, the Trustee and any Bond Insurer or Credit Provider by the owners of not less than 10% in principal amount of the affected series of Obligations then Outstanding; or (iv) the finding by the State legislative audit committee that a condition of gross fiscal mismanagement exists in the Department pursuant to Section 2104.021 of the Texas Government Code and the proclamation by the Governor that the State Conservatorship Board is to act as conservator of the Department.

Bondholders' Rights in the Event of Default

Acceleration. If an Event of Default (other than a covenant default) occurs and is continuing, then the Trustee may and, upon the written request of the owners of not less than 25% in aggregate principal amount of the Obligations then Outstanding, must, by written notice delivered to the Department, declare the principal of the Obligations then Outstanding and the interest accrued thereon immediately due and payable; subject, however, to the right of the owners of more than 50% in aggregate principal amount of the Obligations then Outstanding, by written notice to the Department and to the Trustee, to annul such declaration and destroy its effect at any time if all Events of Default, other than those arising from nonpayment of principal or interest due solely as a result of such acceleration, have been cured. Such annulment will not extend to nor affect any subsequent Event of Default nor impair or exhaust any right or power consequent thereon. Acceleration following the occurrence of an Event of Default other than a payment default may not occur without the written approval of the owners of 100% in aggregate principal amount of the Obligations then Outstanding.

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

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

Application of Proceeds

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

(a) to pay the reasonable and proper charges, expenses and liabilities of the Trustee;

(b) to pay the interest and principal then due on the Obligations, as follows:

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

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

(c) to reimburse any Bond Insurer or Credit Provider for the affected Series; provided that the Bond Insurer and Credit Provider for a Series of Obligations may be reimbursed only from the portion of the Trust Estate related to such Series and not from any portion of the Trust Estate for a Series with respect to which such entity is not providing a policy of Bond Insurance or Credit Support, as applicable, and if, after application of the portion of the Trust Estate related to such Series, there are monies remaining owing to any Bond Insurer or Credit Provider, all Bond Insurers and Credit Providers shall be reimbursed out of the remaining Trust Estate on a pro rata basis based on the ratio of the amount due and payable to each Bond Insurer or Credit Provider to the amount due and payable to all Bond Insurers and Credit Providers;

(d) to pay any other amounts the Department is obligated to pay under the Series Supplement relating to a specific Series of Obligations; and

(e) to pay the amounts required for reasonable and necessary Department Expenses.

Trustee

Bank One, National Association, Austin, Texas, ("Bank One") a national banking association organized and operating under the laws of the United States and having a corporate trust office located in Austin, Texas, has been appointed the Trustee for the Series 2002A Bonds issued under the Master Indenture. Bank One also serves as Trustee for the Senior Lien Bonds issued under the Senior Lien Trust Indenture.

The Department is required, as agreed upon from time to time by the Governing Board of the Department, to pay reasonable compensation to the Trustee, any Depositories and any paying agent for all services rendered under the Junior Lien Trust Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and for the performance of their powers and duties under the Junior Lien Trust Indenture.

The Trustee may be removed if so requested by the owners of a majority in aggregate principal amount of the Obligations then Outstanding. In addition, the Trustee may be removed, with or without cause, at any time (unless an Event of Default has occurred and is continuing) by written instrument of the Department; provided, that all owners of Obligations shall be given notice of such action and the Department shall not have received, within 60 days after such notice, written objections to such action by the owners of at least a majority in aggregate principal amount of the Obligations then Outstanding. The Trustee may also resign, upon appropriate notice. In either event, a successor is required to be appointed. Any successor Trustee must be a bank or trust company or national banking association doing business and having its principal office in the State of Texas, and having capital stock and surplus aggregating at least $75,000,000, which is willing and able to accept the office on reasonable and customary terms and which is authorized by law to perform all the duties imposed on it by the Junior Lien Trust Indenture.

Depositories

The Department may appoint one or more depositories to hold all or a designated portion of the moneys and investments subject to the lien and pledge of the Junior Lien Trust Indenture (other than moneys and securities required to be held in the Interest Fund, the Principal Fund and the Special Redemption Fund). Any depository appointed by the Department must be: (i) the Texas Treasury Safekeeping Trust Company or any other authorized entity acting on behalf of the State Treasurer of the State of Texas; or (ii) a bank or trust company (including the Trustee) organized under the laws of the United States or any state thereof and having capital stock and surplus of at least $50,000,000 which the Department determines to be capable of properly discharging its duties in such capacity and which is acceptable to the Trustee. See "TEXAS TREASURY SAFEKEEPING COMPANY."

All moneys and securities deposited with any Depository under the provisions of the Junior Lien Trust Indenture are required to be held in trust for the Trustee and the owners, and may not be applied in any manner that is inconsistent with the provisions of the Junior Lien Trust Indenture.

If permitted by State law, any Depository may at any time resign and be discharged of its duties and obligations under the Junior Lien Trust Indenture by giving at least 60 days' written notice to the Department and the Trustee. If permitted by State law, any Depository may be removed, at any time by the Department by written instrument of the Governing Board of the Department.

Any State agency into which the Texas Treasury Safekeeping Trust Company may be merged or converted or with which it may be consolidated or any State agency resulting from any merger, conversion or consolidation to which it shall be a party, provided such agency shall be authorized or required by law to perform all the duties imposed upon it by the Junior Lien Trust Indenture, shall be the successor to the Texas Treasury Safekeeping Trust Company without the execution or filing of any paper or the performance of any further act and shall be bound by the terms of the Junior Lien Trust Indenture.

Supplemental Indentures without Consent of Bondholders

Subject to the provisions of the Series Supplements, for any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be executed and delivered by the Department and the Trustee, with the consent of each Bond Insurer and Credit Provider so long as the applicable Bond Insurance or Credit Support is in effect and such Bond Insurer or Credit Provider is not in default in its payment obligations thereunder, without the consent of any owners of any Obligations: (i) to authorize Obligations of a Series and to specify the matters relative to such Obligations which are not contrary to or inconsistent with the Junior Lien Trust Indenture; (ii) to provide for the issuance of Subordinated Obligations; (iii) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Junior Lien Trust Indenture; (iv) to insert such provisions clarifying matters or questions arising under the Junior Lien Trust Indenture as are necessary or desirable and are not contrary to or inconsistent with the Junior Lien Trust Indenture as theretofore in effect; (v) to grant to or confer upon the Trustee for the benefit of the owners of the Obligations any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Trustee; (vi) to close the Junior Lien Trust Indenture against, or provide limitations on, the delivery of Obligations or the issuance of other evidences of indebtedness; (vii) to add to the covenants of the Department in the Junior Lien Trust Indenture other covenants which are not inconsistent therewith; (viii) to add to the restrictions in the Junior Lien Trust Indenture other restrictions to be observed by the Department which are not inconsistent with the Junior Lien Trust Indenture; (ix) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Junior Lien Trust Indenture that is not inconsistent with the Junior Lien Trust Indenture; (x) to confirm the subjection to any lien or pledge created by the Junior Lien Trust Indenture of the Trust Estate or any other moneys; (xi) to modify any of the provisions of the Junior Lien Trust Indenture in any other respect, effective only after all Obligations of any Series Outstanding at the date of the adoption of such Junior Lien Trust Indenture shall cease to be Outstanding; (xii) to amend the Junior Lien Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; (xiii) to provide a correction to any provision of the Junior Lien Trust Indenture which shall be determined in a Counsel's Opinion to be necessary to avoid the exclusion of the Obligations from the treatment afforded by Section 103 of the 1954 Code or the 1986 Code, as applicable, provided, however, that no such correction shall impair in any material manner the rights or remedies of owners of the Obligations or the security for the Obligations afforded by the Junior Lien Trust Indenture; (xiv) to add to the definition of Investment Securities in accordance with the provisions of such definition; (xv) to comply with the requirements of a Rating Agency in order to improve or maintain the rating by such Rating Agency then in effect with respect to the Obligations; (xvi) to make any other change in the Junior Lien Trust Indenture which does not, in the opinion of the Trustee, materially and adversely affect the rights of the owners of the Obligations, (xvi) to evidence compliance with any law or regulations or rule of the Securities and Exchange Commission, the Municipal Securities Rulemaking Board or other appropriate organization or entity relating to or dealing secondary market disclosure with respect to the Obligations or (xvii) to provide for any necessary provisions as a result of the discharge of the Senior Lien Trust Indenture.

Amendment of Junior Lien Trust Indenture with Consent of Bondholders

The Department and the Trustee, at any time or from time to time, may execute and deliver a Supplemental Indenture for the purpose of making any modification or amendment to the Junior Lien Trust Indenture, but only with the prior written consent of the owners of at least two-thirds in aggregate principal amount of the Obligations then Outstanding at the time such consent is given, and in case less than all of the several Series of Obligations then Outstanding are affected by the modification or amendment, of the owners of at least two-thirds in aggregate principal amount of the Obligations of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Obligations of any particular Series and maturity remain Outstanding, the consent of the owners of such Obligations will not be required and such Obligations will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the Junior Lien Trust Indenture. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Indenture may permit any of the following, without the consent of each owner of Obligations and each Bond Insurer or Credit Provider whose rights are affected thereby: (i) a change in the terms of maturity or redemption of any Obligation or of any installment of interest thereon; (ii) a reduction in the principal amount or Redemption Price of any Obligation or in the rate of interest thereon; (iii) the creation of a lien on or a pledge of the Revenues or any part thereof, other than the lien and pledge of the Junior Lien Trust Indenture or as permitted by the Junior Lien Trust Indenture; (iv) the granting of a preference or priority of any Obligation or Obligations over any other Obligation or Obligations; (v) a reduction in the aggregate principal amount or classes of Obligations of which the consent of the owners is required to effect any such modification or amendment; or (vi) a change in the manner and circumstances under which the Department is permitted to assign or dispose of the Mortgage Loans or Department Loans. For the purposes of the Junior Lien Trust Indenture, a Series is deemed to be affected by a modification or amendment of the Junior Lien Trust Indenture if the same materially and adversely affects or diminishes the rights of the owners of Obligations of such Series.

Defeasance

If the Department pays irrevocably or causes to be paid irrevocably, or there otherwise is paid, to the owners of all Obligations the principal or Redemption Price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Junior Lien Trust Indenture, then the pledge of the Trust Estate under the Junior Lien Trust Indenture and all covenants, agreements and other obligations of the Department to the owners of the Obligations, will thereupon terminate.

Obligations or interest installments for the payment or redemption of which moneys shall have been set aside by the Trustee or any paying agent at the maturity or redemption date thereof will be deemed to have been paid within the meaning of the Junior Lien Trust Indenture. In addition, all Outstanding Obligations of any Series will be deemed to have been paid within the meaning of the Junior Lien Trust Indenture if: (i) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Department has given to the Trustee irrevocable instructions to give notice of redemption of such Obligations on said date together with a Cashflow Statement; (ii) there has been deposited with the Trustee or paying agent either moneys in an amount which are sufficient, or Government Obligations not subject to redemption prior to the maturity thereof, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or any paying agent at the same time, are sufficient, to pay when due the principal or Redemption Price and interest due and to become due on said Obligations on and prior to the redemption date or maturity date thereof, as the case may be; and (iii) in the event said Obligations are not to be redeemed within the next succeeding 60 days, the Department has given the Trustee irrevocable instructions to give a notice, as soon as practicable by first-class mail, postage prepaid, to the owners of such Obligations that the deposit required by (ii) above has been made with the Trustee or a paying agent and that said Obligations are deemed to have been paid in accordance with the Junior Lien Trust Indenture and stating such maturity or redemption date upon which moneys are to be made available for the payment of the principal or Redemption Price, if applicable, on said Obligations. In addition, the Trustee must have received opinions of counsel to the effect that such defeasance will not constitute an avoidable preference under the applicable provisions of the bankruptcy laws of the United States and that the deposit will not cause interest on any tax-exempt Obligation to become includable in gross income of the holders thereof for federal income tax purposes.

Any moneys held by the Trustee or any paying agent for the payment of any of the Obligations which remain unclaimed for three years after the date when such Obligations have become due and payable, either at their stated maturity dates or by call for earlier redemption, the owners thereof will no longer be able to enforce the payment thereof, and the Trustee or the paying agent, as the case may be, must, at the written request of the Department, repay such moneys to the Comptroller, free from trust, and the owners of the Obligations thereafter may look only to the Comptroller for the payment of such Obligations.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

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

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

SERIES 2002A BONDS – TAX MATTERS

The following discussion describes the principal United States federal tax treatment of United States persons that are Beneficial Owners of the Series 2002A Bonds. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), published revenue rulings, judicial decisions and existing and proposed Treasury regulations, changes to any of which subsequent to the date of this Official Statement may affect the tax consequences described herein.

This summary discusses only Series 2002A Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to a Beneficial Owner in light of its particular circumstances or to Beneficial Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Beneficial Owners whose functional currency (as defined in section 985 of the Code) is not the United States dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2002A Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Series 2002A Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2002A Bonds.

For purposes of this discussion, a "United States person" means an individual who, for United States federal income tax purposes, is a citizen or resident of the United States, or a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is subject to United States federal income taxation regardless of its source of income. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2002A Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from United States sources as if they were citizens or residents.

General

Income derived from a Series 2002A Bond by a Beneficial Owner is subject to United States federal income taxation. In addition, a Series 2002A Bond held by an individual who, at the time of death, is a United States person is subject to United States federal estate taxation.

Payments of Interest

Stated interest paid on a Series 2002A Bond will generally be taxable to a Beneficial Owner as ordinary interest income at the time it accrues or is received in accordance with the Beneficial Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of Series 2002A Bonds having original issue discount, acquisition premium, market discount or amortizable premium are described below.

Amortizable Premium

A Beneficial Owner that purchases a Series 2002A Bond for any amount in excess of its principal amount will be treated as having premium with respect to such Bond in the amount of such excess. If a Beneficial Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Beneficial Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2002A Bond's yield to maturity. If a Beneficial Owner makes the election under section 171(c)(2) of the Code, the election also shall apply to all taxable bonds held by the Beneficial Owner at the beginning of the first taxable year to which the election applies and to all such taxable bonds thereafter acquired by such Beneficial Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171(c)(2) of the Code is not made, such Beneficial Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale of other disposition or retirement of the Series 2002A Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Beneficial Owner. Accordingly, each Beneficial Owner of a Series 2002A Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, a Beneficial Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2002A Bond (i.e., the excess of all remaining payments to be received on the Series 2002A Bond over the amount paid for the Series 2002A Bond by such Beneficial Owner) based on the compounding of interest at a constant rate. Such an election for a Series 2002A Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Beneficial Owner's debt instruments with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange or other disposition of a Series 2002A Bond, or upon the retirement of a Series 2002A Bond (including by redemption), a Beneficial Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Beneficial Owner's basis in the Series 2002A Bond. A Beneficial Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2002A Bond will be the cost of such Series 2002A Bond to such Beneficial Owner decreased by the amount of any payments under the Series 2002A Bond that are part of its stated redemption price at maturity and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2002A Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Department is required to report to the IRS payments of interest on Series 2002A Bonds held of record by United States persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a Series 2002A Bond for federal income tax reporting purposes.

Interest paid to a Beneficial Owner of a Series 2002A Bond ordinarily will not be subject to withholding of federal income tax if such Beneficial Owner is a United States person. Backup withholding of federal income tax (currently at a rate of 30 percent for years 2002 and 2003) may apply, however, to payments made in respect of the Series 2002A Bonds, as well as payments of proceeds from the sale of Series 2002A Bonds, to registered holders or Beneficial Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Beneficial Owner of a Series 2002A Bond (who is not an exempt recipient) (i) fails to furnish to the Department such Beneficial Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Department an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Department or such Beneficial Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Department is correct and that such Beneficial Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's United States federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Beneficial Owner who is required to supply information but who does not do so in the proper manner.

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 SERIES 2002A 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 UNITED STATES PERSONS.

CONTINUING DISCLOSURE OF INFORMATION

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

No Eligible Borrower is an "obligated person" (as defined in Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended) for whom financial information or operating data would be presented in the final Official Statement relating to the Series 2002A Bonds had such Eligible Borrower been known at the time of the offering of the Series 2002A Bonds.

Annual Reports

The Department will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Department of the general type included in this Official Statement under the headings "APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF

HOUSING AND COMMUNITY AFFAIRS - REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEARS ENDED AUGUST 31, 2001 and 2000" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), "APPENDIX C - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES," and "APPENDIX D - OTHER INDEBTEDNESS OF THE DEPARTMENT." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 2002. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

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

Material Event Notices

The Department will provide timely notices of certain events to certain information vendors. The Department will provide notice of any of the following events with respect to the Series 2002A Bonds, if such event is material to a decision to purchase or sell Series 2002A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status, if applicable, of the Series 2002A Bonds; (7) modifications to rights of securities holders; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2002A Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Department has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to owners of Series 2002A Bonds only if the owners comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2002A Bonds at any future date. The Department disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its Disclosure Agreement or from any statement made pursuant to its Disclosure Agreement, although holders of Series 2002A Bonds may seek a writ of mandamus to compel the Department to comply with its Disclosure Agreement.

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

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

Duties, Immunities and Liabilities of Trustee

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

Compliance with Prior Continuing Disclosure Agreements

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

RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service Inc. ("Moody's") have assigned ratings on the Series 2002A Bonds of "A+" and "Aa2" respectively. The foregoing ratings reflect only the views of S&P and Moody's respectively, and an explanation of the significance of such rating may be obtained from S&P and Moody's. The ratings do not represent recommendations to buy, sell, or hold the Series 2002A Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of the ratings.

There is no assurance that any rating assigned to the Series 2002A Bonds will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P or Moody's, if in the judgment of S&P or Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2002A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., Certified Public Accountants, an independent firm of certified public accountants, will verify from the information provided to them, the mathematical accuracy as of the date of the Issuance Date of the Bonds of the computations relating to the sufficiency of projected cash flow receipts and disbursements on the Senior Lien Mortgage Loans, Mortgage Loans and Department Loans and other funds pledged under the Junior Lien Trust Indenture to pay the principal of and interest on the Series 2002A Bonds. Such verification is not, and should not be construed as, a guarantee that there will in fact be sufficient monies available under the Junior Lien Trust Indenture to pay the principal of and interest on the Series 2002A Bonds. Causey Demgen & Moore, Inc. will express no opinion on the assumptions or projections provided to them.

FINANCIAL STATEMENTS

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

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

LITIGATION MATTERS

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

LEGALITY FOR INVESTMENT

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

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

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

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

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Vinson & Elkins L.L.P., Bond Counsel, a copy of which is attached hereto as APPENDIX H. Certain legal matters incident to the issuance of the Series 2002A Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their counsel, Wickliff & Hall, L.L.P.

In their capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2002A Bonds, the security therefor and the federal income tax status thereof, particularly the information on the cover and appearing under "INTRODUCTION," "THE SERIES 2002A BONDS" (but excluding the information contained therein under the subheadings "Assumptions Regarding Certain Redemptions," "Book-Entry-Only System" and "Discontinuation of Book-Entry-Only System"), "SECURITY FOR THE SERIES 2002A BONDS" (but excluding the information set forth under the subheading "Certain Information as to Revenues, Debt Service and Department Expenses"), "THE SENIOR LIEN TRUST INDENTURE," "INVESTMENT OF FUNDS," "ADDITIONAL OBLIGATIONS," "THE PROGRAM AND THE MORTGAGE LOANS", "THE JUNIOR LIEN TRUST INDENTURE,""SERIES 2002A BONDS - TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A and APPENDIX H to this Official Statement, solely to determine whether such information is correct as to matters of law and fairly and accurately describes or summarizes the provisions of the Junior Lien Trust Indenture and the Obligations. Bond Counsel were not requested to participate and did not take part in the preparation of any other information contained herein and did not assume responsibility with respect thereto or undertake independently to verify the accuracy of any of such information. Except as set forth above, Bond Counsel does not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon such firm's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

FINANCIAL ADVISOR

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

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2002A Bonds from the Department at a price of $10,000,000 (plus accrued interest on the Series 2002A Bonds to the date of delivery). At closing, the Department will pay the Underwriters an underwriting fee of $113,463.97. The Underwriters will be obligated to purchase all such Series 2002A Bonds if any are purchased. The Series 2002A Bonds may be offered and sold to certain dealers at prices lower than public offering prices and the public offering prices may be changed from time to time.

ADDITIONAL INFORMATION

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

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Department and the purchasers or Bondholders of any of the Series 2002A Bonds.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

Dated: March 6, 2002

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APPENDIX A
GLOSSARY

The capitalized terms used in this Official Statement, unless otherwise defined in the Official Statement, have the respective meanings ascribed to such terms as set forth below in this Appendix A.

"Account" shall mean a separate special trust account relating to a specific Series of Obligations, which account is established within a Fund pursuant to the related Series Supplement.

"Acquisition Cost" shall mean the cost to a Borrower of acquiring a Residence from the seller thereof as a completed residential unit, including: (i) all amounts paid, either in cash or in kind, by the Borrower (or a related party or for the benefit of the Borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the Residence; (ii) if the Residence is incomplete, the reasonable cost of completing it, whether or not such cost is to be financed with the Mortgage Loan; and (iii) if the Residence is purchased subject to a ground rent, the capitalized value of the ground rent calculated using a discount rate equal to the yield on the Series 2002A Bonds as determined by the Department in accordance with the provisions of applicable federal income tax law. "Acquisition Cost" does not include (a) usual and reasonable settlement and financing costs (including title and transfer costs, title insurance, survey fees, credit reference fees, hazard or flood insurance premiums, abstract or tax service fees, recording or registration fees, legal fees, appraisal expenses, points paid by the Borrower [but not points paid by the seller and amounts representing buydowns even though borne by the Borrower through a higher purchase price], and other similar costs), but only to the extent that such amounts do not exceed the usual reasonable costs which would be paid by the Borrower in a case in which financing is not provided through the issuance of bonds the interest on which is excludable from gross income for federal income tax purposes; (b) the value of services performed by the Borrower or members of the Borrower's family (including brothers and sisters [whether by whole or halfblood], spouse, lineal ancestors, and lineal descendants only) completing the Residence; (c) the cost of land which has been owned by the Borrower for at least two years prior to the commencement of construction of the Residence; (d) amounts paid by the Borrower (or a related party or for the benefit of the Borrower) to the seller (or a related party or for the benefit of the seller) for personal property which under State law is not a fixture; and (e) amounts paid by the Borrower (or a related party or for the benefit of the Borrower) or the seller (or a related party or for the benefit of the seller) for painting, minor repairs, floor refinishing or other fix-up expenses.

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

"Administrator" shall mean the administrator with respect to the Program financed with the applicable Series of Obligations as so described in the Series Supplement authorizing such Series of Obligations, which may be the Department.

"Administrative Fee" shall mean the fees and expenses of the Administrator for a Program as set out in the applicable Series Supplement.

"Agency" shall mean the Texas Housing Agency, the predecessor to the Department.

"Agency Assets" shall mean the aggregate of (i) the outstanding principal balance of all Mortgage Loans and (ii) the moneys and Investment Securities (as defined in the Senior Lien Trust Indenture) in all Funds and Accounts (other than amounts designated for payment of Costs of Issuance and amounts estimated to pay Agency Expenses) held under the Senior Lien Trust Indenture with the Investment Securities valued at their Amortized Value in accordance with the provisions of the Senior Lien Trust Indenture.

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

Aggregate Debt Service" for any Bond Year shall mean, as of any date of calculation, the sum of the amounts of debt service for such year with respect to all Senior Lien Bonds.

"Amortized Value" shall mean, with respect to an Investment Security, the value of such Investment Security calculated by dividing the total premium or discount at which such Investment Security was acquired (exclusive of accrued interest other than accrued interest paid in connection with the acquisition of such Investment Security and not yet recovered) by the number of days remaining to the maturity of such Investment Security at the time of its acquisition and multiplying the amount so calculated by the number of days since such acquisition and deducting or adding, as the case may be, the product thus obtained to the par value of such Investment Security.

"Attorney General" shall mean the Attorney General of the State of Texas or any successor thereto.

"Authorized Denomination" shall mean: (i) $5,000 Principal Amount at maturity or any integral multiple thereof; or (ii) any other amount specified as an Authorized Denomination in an applicable Series Supplement.

"Authorized Representative of the Department" shall mean the Executive Director of the Department or any other employee or officer of the Department authorized to perform specific acts or duties by resolution duly adopted by the Governing Board of the Department, a copy of which shall be filed with the Trustee.

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

"Bond Depository" shall mean The Depository Trust Company, New York, New York, or any successor or other bank or trust company (including the Trustee) appointed by the Department in accordance with the Junior Lien Trust Indenture to act as securities depository for the Obligations of one or more Series.

"Bond Insurance" shall mean the policy of municipal bond insurance or financial guaranty insurance guaranteeing the payment to the Trustee, by or on behalf of the Department, of an amount equal to the principal of and interest when due on all or a portion of a Series of Obligations.

"Bond Insurer" shall mean the provider of Bond Insurance with respect to a Series of Obligations.

"Bond Insurer or Credit Provider Default" shall mean any one of the following events shall have occurred and be continuing:

(i) The related Bond Insurer or the Credit Provider, as applicable, fails to make or provide for any payment required under the related Bond Insurance policy or Credit Support in accordance with its terms;

(ii) the related Bond Insurer or the Credit Provider, as applicable, (A) files any petition or commences any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (B) makes a general assignment for the benefit of its creditors, or (C) has an order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable; or

(iii) a court of competent jurisdiction, a competent state department of insurance or other competent regulatory authority enters a final and nonappealable order, judgment or decree (A) appointing a custodian, trustee, agent or receiver for the related Bond Insurer or Credit Provider or for all or any material portion of its property or (B) authorizing the taking of possession by a custodian, trustee, agent or receiver of such Bond Insurer or Credit Provider (or the taking of possession of all or any material portion of the property of such Bond Insurer or Credit Provider).

"Bond Year" shall mean with respect to the Senior Lien Bonds each twelve month period ending August 31.

"Borrower" shall mean, when used with respect to a Mortgage Loan, the obligor on such Mortgage Loan, including an obligor by way of assumption.

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

"Cashflow Certificate" shall mean a written certificate signed by an Authorized Representative of the Department stating that the action described in the Letter of Instructions to which such certificate pertains is consistent with the assumptions used in the Cashflow Statement most recently filed with the Trustee and each Bond Insurer or Credit Provider.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with the corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Obligations.

"Comptroller" or "State Comptroller" shall mean the Comptroller of Public Accounts of the State of Texas, or any successor thereto.

"Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the Department and related to the authorization, sale, issuance and remarketing of Obligations, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Fiduciaries; bond discounts, underwriting fees and remarketing fees; legal fees and charges; consulting fees and charges; auditing fees and expenses; financial advisory fees; credit rating fees; Bond Insurance fees; Credit Support fees; fees and charges for execution, transportation and safekeeping of Obligations; and other administrative or other costs of issuing, carrying, repaying and remarketing Obligations and investing the Obligations proceeds.

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

"Credit Provider" shall mean any party providing Credit Support with respect to a Series of Obligations.

"Credit Support" shall mean collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase Obligations, purchase or sale agreement, interest rate swap agreement, or commitment or other contract or agreement authorized, recognized and approved by the Governing Board of the Department as Credit Support in connection with the issuance of Obligations.

"Debt Service Reserve Account Requirement" shall mean, as of any date of calculation, an amount equal to 10% of the aggregate principal amount of certain Senior Lien Bonds or such greater amount required by a Supplemental Indenture to the Senior Lien Trust Indenture.

"Deferred Interest Obligation" shall mean any Obligation which, pursuant to the applicable Series Supplement, bears interest for all or part of the stated term of such Obligation that is not payable currently on a periodic basis but rather that accrues and is compounded on interest compounding dates specified in such Series Supplement and is payable only at maturity or upon prior redemption or acceleration of such Obligation.

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

"Department Assets" shall mean the aggregate of (i) the outstanding principal balance of all Senior Lien Mortgage Loans, (ii) the moneys and investment securities in all funds and accounts under the Senior Lien Trust Indenture and all Funds and Accounts under the Junior Lien Trust Indenture (other than the amounts designated for payment of Costs of Issuance and amounts estimated to pay Agency Expenses or Department Expenses) with such investment securities under the Senior Lien Trust Indenture valued in accordance with the appropriate provisions of the Senior Lien Trust Indenture, or the Investment Securities under the Junior Lien Trust Indenture valued in accordance with the appropriate provisions of the Junior Lien Trust Indenture, respectively, at the amortized value and (iii) that portion of the aggregate principal amount of Mortgage Loans and Department Loans that are permitted to be included as Department Assets by the Rating Agencies.

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

"Department Loan" shall mean any mortgage loan or housing development loan made by the Department pursuant to a Program that is not a Mortgage Loan that satisfies the requirements of the Junior Lien Trust Indenture.

"Depository" shall mean the Texas Treasury Safekeeping Trust Company, a limited purpose corporate trust company organized under the laws of the State of Texas, and any bank or trust company appointed by the Department in accordance with the Junior Lien Trust Indenture as a depository of certain money and investments held under the Junior Lien Trust Indenture, and the successors and assigns of such Depository.

"Depository Agreement" shall mean that certain Depository Agreement dated as of March 1, 2002, by and among the Department, the Trustee and the Depository, together with any amendments or supplements thereto.

"Fair Market Value" shall mean, as of any particular date of valuation: (i) as to Investment Securities the bid and asked prices of which are published on a regular basis in a financial journal or publication of general circulation in the United States of America, the bid price for such Investment Securities so published on or most recently prior to the date of valuation by the Trustee or any Depository; (ii) as to Investment Securities the bid and asked prices of which are not published on a regular basis in a financial journal or publication of general circulation in the United States of America, the average bid price on such Investment Securities at the date of valuation by the Trustee or any Depository, as reported by any two nationally recognized dealers in such Investment Securities; or if neither (i) nor (ii) is available, (iii) as to Investment Securities the bid prices of which are available through a nationally recognized service providing electronic access to market information on such Investment Securities, the current bid price for such Investment Securities as indicated through the electronic transmission of such price through such service as of the time of evaluation by the Trustee or any Depository.

"FDIC" shall mean the Federal Deposit Insurance Corporation or any successor agency or instrumentality of the United States of America.

"Fiduciary" or Fiduciaries" shall mean the Trustee, any Co-Trustee, any Paying Agent, any Depository, any Bond Depository, any additional fiduciary (including, but not limited to, any tender agent or remarketing agent) appointed by the Department in accordance with the Junior Lien Trust Indenture to act as fiduciary with respect to a Series of Obligations or any or all of them, as may be appropriate.

"FHA" shall mean the United States Department of Housing and Urban Development, Federal Housing Administration, or any successor federal agency or instrumentality.

"FHLMC" shall mean the Federal Home Loan Mortgage Corporation, a corporation organized and existing under the laws of the United States of America.

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

"Fund" or "Funds" shall mean any one or more, as the case may be, of the separate special trust funds created and established in the Master Indenture or in a Supplemental Indenture.

"Government Obligations" shall mean direct obligations of, or obligations the principal of and interest on which are guaranteed by the full faith and credit of, the United States of America.

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

"Investment Security" or "Investment Securities" shall mean and include any one or more of the following securities, if and to the extent the same are at the time legal for investment of Department funds and to the extent the same are permitted to be invested in by the Rating Agencies:

(i) Government Obligations;

(ii) FHA debentures;

(iii) Bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America acting pursuant to authority granted by the Congress of the United States, including, without limitation, the following: Fannie Mae (excluding mortgage-backed securities valued at greater than par on the portion of unpaid principal and mortgage-backed securities representing payments of principal only or interest only with respect to the underlying loans); FHLMC (excluding FHLMC securities not guaranteed as to timely payment of principal); Ginnie Mae; Student Loan Marketing Association; or other successor agencies;

(iv) Debt obligations (excluding obligations that do not have a fixed par value and/or the terms of which do not provide for payment of a fixed dollar amount at maturity or redemption) of any Person, but only if, as of the time of purchase of such debt obligations they are rated by each Rating Agency in the highest categories for long-term obligations;

(v) Unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities not in excess of one year) of any bank (including the Trustee) the short-term unsecured debt obligations of which are at the time of such investment rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of Standard & Poor's Credit Market Services);

(vi) Certificates of deposit and time deposits of any bank (including the Trustee or an affiliate of the Trustee) which are fully insured as to principal and interest by the FDIC (but not including deposits in any institution that has been placed in receivership or conservatorship by the FDIC at the time of such deposit);

(vii) Commercial paper having maturities not in excess of one year rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of Standard & Poor's Credit Market Services) at the time of such investment;

(viii) Money market funds rated at the time of such investment by each Rating Agency in the highest category for money market funds;

(ix) Repurchase agreements the subject of which are obligations described in clauses (i), (ii) or (iii) above, with any Person whose long-term unsecured general indebtedness is at the time of such investment rated by each Rating Agency in the highest categories for long-term obligations and, if the Obligations are then rated by one or more Rating Agencies, or if the term of such repurchase agreement does not exceed one year, whose short-term unsecured general indebtedness is at the time of such investment rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of Standard & Poor's Credit Market Services);

(x) Investment agreements secured or unsecured as required by the Department and in form and substance approved by the related Bond Insurer or Credit Provider, if any, with any Person whose long-term unsecured general indebtedness is at the date of execution of such agreement rated by each Rating Agency in the highest categories for long-term obligations or, if the term of such investment agreement does not exceed one year, whose short-term unsecured general indebtedness is at the date of execution of such agreement rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of Standard & Poor's Credit Market Services);

(xi) Investment securities described in any Supplemental Indenture which are approved by the Bond Insurer or Credit Provider for the related Series of Obligations the inclusion of which in the definition of Investment Securities for purposes of the Junior Lien Trust Indenture will not adversely affect, in and of itself, any rating then assigned to the Obligations by a Rating Agency, as evidenced by a letter from each such Rating Agency; and

(xii) The One Group Treasury Only Fund or comparable money market fund utilized by the Trustee if such fund maintains a credit rating at least as high as the credit rating assigned to the Obligations.

"Issuance Date" shall mean the date of initial issuance and delivery of a Series of the Obligations to the initial purchaser thereof in exchange for payment of the original purchase price therefor.

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

"Letter of Instructions" shall mean a written directive and authorization to the Trustee or any Depository, with a copy to each Bond Insurer, specifying the period of time for which such directive and authorization shall remain in effect, executed by an Authorized Representative of the Department.

"Liquid Assets" shall mean funds available at closing, as estimated on the Uniform Residential Loan Application, HUD Form 1003 and verified for the first lien mortgage loan, in a checking account, savings account, certificate of deposit, stocks and bonds and any other assets readily convertible to cash.

"Loan Receipts" shall mean all income, revenues and receipts received by or on behalf of the Department on or with respect to any Mortgage Loan or Department Loan, including without limitation amounts received by the Trustee or the Department with respect to any actions or proceedings under the Program Documents, the Mortgage Documents, the Mortgage Loans or the Department Loans, or the enforcement thereof.

"Master Indenture" shall mean the Junior Lien Trust Indenture without any supplements or amendments, unless the amendment specifically provides that it is intended to amend the Master Indenture.

"Mortgage" shall mean any mortgage securing a Mortgage Loan or a Department Loan that is part of a Program.

"Mortgage Documents" shall mean the Mortgage Notes, Mortgages and related documents, each with respect to a Mortgage Loan or a Department Loan, so described in each Series Supplement.

"Mortgage Lender" shall mean the Department and any financial institution or non-profit corporation authorized to transact business in the State of Texas that is approved by the Department to act as an originator and seller of Mortgage Loans or Department Loans under a Program.

"Mortgage Loan" shall mean any loan for a housing development that is evidenced by a Mortgage Note and secured by a mortgage, that satisfies the requirements of the Junior Lien Trust Indenture or any mortgage certificates.

"Mortgage Note" shall mean any note or other instrument evidencing a Borrower's obligation to repay a Mortgage Loan or a Department Loan.

"Mortgage Reserve Fund Requirement" shall mean, as of any date of calculation, an amount which shall be equal to 1-1/2% of the principal amount of certain Senior Lien Bonds.

"Obligation" or Obligations" shall mean any bond or bonds, note or notes or other obligation or obligations, each as the case may be, authenticated (or registered by the State Comptroller) and delivered under and pursuant to the Junior Lien Trust Indenture.

"Obligation Owner", "Owner" or "Owner of Obligations" shall mean, with respect to any Obligation or Obligations, the registered Owner of such Obligation or Obligations, as shown on the registration books kept by the Trustee.

"Obligation Year" shall mean the annual period commencing on September 1 of each year and ending on the next succeeding August 31.

"Outstanding" shall mean, when used with reference to Obligations, as of any date, Obligations theretofore or thereupon being authenticated (to the extent required) and delivered under the Junior Lien Trust Indenture except:

(i) Obligations canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(ii) Obligations in lieu of or in substitution for which other Obligations shall have been authenticated and delivered pursuant to the Junior Lien Trust Indenture; and

(iii) Obligations deemed to have been paid as provided in the Junior Lien Trust Indenture.

"Paying Agent" shall mean, with respect to any Series, any bank or trust company appointed by the Department in accordance with the Junior Lien Trust Indenture to act as paying agent for the Obligations of such Series.

"Person" shall mean any individual, public or private corporation, district, authority, municipality, political subdivision or other agency or entity of the State of Texas or the United States of America, and any incorporated city, town or village, whether operating under general or special law or under its homerule charter, and any partnership, association, firm, trust, estate, or any other entity whatsoever.

"Program" shall mean any of the one or more several mortgage loan or housing development loan programs established by the Department, pursuant to which the Department makes, acquires or refinances Mortgage Loans or Department Loans.

"Program Documents" shall mean, collectively, with respect to any Program: (i) each agreement relating to the origination, sale, servicing, administration or compliance monitoring of Mortgage Loans or Department Loans; and (ii) all amendments or supplements to the foregoing documents.

"Rating Agency" shall mean, initially Moody's Investors Service and Standard & Poors Credit Market Services, a division of The McGraw-Hill Companies, Inc., and thereafter any nationally-recognized credit rating agency whose rating has been requested or consented to in writing by the Department, and approved by the Bond Insurer or Credit Provider for the Series, and is then in effect with respect to any of the Obligations.

"Rebate Analyst" shall mean a certified public accountant or financial analyst, or any firm of the foregoing, or financial institution experienced in making the arbitrage and rebate calculations required pursuant to Section 148 of the Code and retained as the Department's agent to make the computations and give the directions, if any, required under a Series Supplement.

"Rebate Fund" shall mean the Fund or account which may be created in a Series Supplement with respect to one or more Series of Obligations, as authorized by the Junior Lien Trust Indenture.

"Redemption Price" shall mean with respect to any Obligation, the portion of the Principal Amount thereof, plus the redemption premium, if any, payable upon the redemption of such Obligation, as specified in the applicable Series Supplement.

"Residence" shall mean real property and improvements permanently affixed thereon: (i) that are located within the State; (ii) that consist of a single family attached or detached structure that is eligible for financing under the applicable Program, or a single unit in a condominium development or planned unit development (but not including a duplex, triplex or fourplex unless otherwise specified in the applicable Program Supplement, or any personal property); (iii) that has an estimated remaining economic life at least equal to the term of the Mortgage Loan; (iv) the Acquisition Cost of which does not exceed $115,765, or such greater amount as is permitted by the applicable Program Documents; and (v) that satisfies any other requirements set forth in the applicable Program Documents; provided, however, that land appurtenant to a Residence shall be considered as part of such Residence only if such land does not exceed one acre (unless such restriction is waived), reasonably maintains the basic livability of such Residence and does not provide, other than incidentally, a source of income to the Borrower.

"Reserve Account Requirement" shall mean the amount required to be maintained on deposit in the related Account in the Reserve Fund with respect to a Series of Obligations, which amount shall be set forth in the Series Supplement applicable to such Series of Obligations.

"Revenues" shall mean: (i) all Surplus Revenues received by the Trustee from the Senior Lien Indenture Trustee or from the Department; (ii) all interest received on or profits derived from investing money held in the Funds (other than the Cost of Issuance Fund, the Expense Fund, and any other Fund, Account or subaccount identified as not pledged as part of the Trust Estate in a Series Supplement); and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee as part of the Trust Estate pursuant to a Supplemental Indenture; provided, however, that "Revenues" shall not include any amount held in any Rebate Fund, unless such amount is required to be transferred to the Revenue Fund pursuant to the applicable Series Supplement.

"Senior Lien Bonds" shall mean all bonds issued under the Senior Lien Trust Indenture.

"Senior Lien Debt Service Reserve Account" shall mean the fund designated as the "Debt Service Reserve Account" established under the Senior Lien Trust Indenture.

"Senior Lien Indenture Trustee" shall mean Bank One, National Association, as successor trustee to The Fort Worth National Bank, under the Senior Lien Trust Indenture.

"Senior Lien Mortgage Loans" shall mean the mortgage loans financed by the Department or the Agency (including any such mortgage loans that have been the subject of an assumption or are delivered in substitution for a mortgage loan) from the proceeds of the Senior Lien Bonds, including any real property and improvements thereon relating to a mortgage loan which the Department or the Senior Lien Indenture Trustee has acquired through foreclosure.

"Senior Lien Mortgage Reserve Fund" shall mean the fund designated as the "Mortgage Reserve Fund" established under the Senior Lien Trust Indenture.

"Senior Lien Redemption Account" shall mean the Redemption Account established within the Debt Service Fund under the Senior Lien Trust Indenture.

"Senior Lien Trust Indenture" shall mean that certain Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, between the Agency and the Senior Lien Indenture Trustee, as supplemented and amended to the date thereof and from time to time thereafter.

"Series" shall mean all of the Obligations designated as a Series in a Series Supplement and which are authenticated and delivered on original issuance in a simultaneous transaction, and any Obligations thereafter authenticated and delivered in lieu of or in substitution for such Obligations pursuant of the Junior Lien Trust Indenture regardless of variations in maturity, interest rate, interest payment date or other provisions.

"Series 1983A Mortgage Loans" shall mean Mortgage Loans acquired with proceeds of the Agency's Single Family Mortgage Revenue Bonds, Series 1983A.

"Series Program Determinations" shall mean determinations by the Department relating to Mortgage Loans or Department Loans, if any, and certain other matters required in connection with a Series, under the Program to be set forth (or determined at certain specified times in the future) in the applicable Program Documents and Series Supplement.

"Series Supplement" shall mean, with respect to any Obligation or Series of Obligations, the Supplemental Indenture providing for the issuance of such Obligation or such Series of Obligations.

"Series 2002A Bonds" shall mean the Obligations of the Series authorized by the Series 2002A Series Supplement.

"Series 2002A Mortgage Loans" shall mean the Mortgage Loans and Department Loans made, acquired, or refinanced by the Department from amounts deposited in the Series 2002A Acquisition Account in accordance with the Series Supplement applicable to the Series 2002A Bonds and the Program Guidelines; provided that each Series 2002A Mortgage Loan shall be a Mortgage Loan or a Department Loan as defined in the Junior Lien Trust Indenture.

"Series 2002A Mortgage Loan Principal Payments" shall mean with respect to any Series 2002A Mortgage Loan, all amounts representing (i) scheduled payments of principal thereof and (ii) Series 2002A Mortgage Loan Principal Prepayments other than portions, if any, of Series 2002A Mortgage Loan Principal Prepayments representing any penalty, fee, premium or other additional charge for the prepayment of principal which may be paid pursuant to the terms of a Series 2002A Mortgage Loan.

"Series 2002A Mortgage Loan Principal Prepayments" shall mean any moneys received or recovered by the Department from any payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Series 2002A Mortgage Loan) on any Series 2002A Mortgage Loan other than the scheduled payments of principal called for by such Series 2002A Mortgage Loan, whether (i) by voluntary prepayment made by the mortgagor or (ii) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof (other than insurance moneys received or recovered and used in accordance with the provisions of the Junior Lien Trust Indenture to repair or reconstruct the mortgaged premises which were the subject of insurance proceeds) or (iii) by the sale, assignment, endorsement or other disposition of such Series 2002A Mortgage Loan by the Department or (iv) in the event of a default thereon by the mortgagor, by the acceleration, sale, assignment, endorsement or other disposition of such Series 2002A Mortgage Loan by the Department or by any other proceedings taken by the Department or (v) from any special hazard insurance policy or standard hazard insurance policy covering mortgaged premises or (vi) from any mortgage insurance, including a private mortgage insurance policy and a mortgage pool insurance policy, or (vii) from any proceeds received from the United States of America or any instrumentality thereof in respect of any insurance or guaranty of a Series 2002A Mortgage Loan.

"Series 2002A Reserve Account Requirement" shall mean an amount equal to 3% of the principal amount of the Series 2002A Bonds Outstanding.

"Servicer" shall mean the servicer or servicers, if any, with respect to the Program relating to a Series of Obligations as so described in the Series Supplement authorizing such Series of Obligations.

"State" shall mean the State of Texas.

"Statement of Projected Revenues" shall consist of a certificate of an authorized officer of the Department setting forth for the current and each succeeding Bond Year in which Senior Lien Bonds are scheduled to be outstanding a schedule of all anticipated revenues (each as defined in the Senior Lien Trust Indenture), which may include reasonably expected mortgage loan principal prepayments (as defined in the Senior Lien Trust Indenture) and of all amounts expected to be withdrawn from the mortgage loan fund, the mortgage reserve fund, the expense fund and the debt service fund (each as defined in the Senior Lien Trust Indenture) to pay Aggregate Debt Service and budgeted or estimated Agency Expenses allocable to the Senior Lien Bonds, the Senior Lien Trust Indenture and the program (as defined in the Senior Lien Trust Indenture), together with a schedule of Aggregate Debt Service and such Agency Expenses.

"Subordinated Obligation" shall mean an Obligation issued under the Junior Lien Trust Indenture that is subordinated in preference of payment to other Obligations issued under the Junior Lien Trust Indenture, but is nevertheless secured by the Trust Estate.

"Supplemental Indenture" shall mean any trust indenture supplemental to or amendatory of the Junior Lien Trust Indenture or a Series Supplement, executed and delivered by the Department and the Trustee in accordance with the Master Indenture.

"Surplus Revenues" shall have the meaning assigned to such term in the Senior Lien Trust Indenture.

"Trustee" shall mean Bank One, National Association, a national banking association organized and existing under the laws of the United States of America and having a corporate trust office located in Austin, Texas.

"Trustee's Fee" shall mean with respect to a Series of Obligations the fee described as such in the Series Supplement authorizing a Series of Obligations.

"VA" shall mean the United States Department of Veterans Affairs or any successor federal agency or instrumentality.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

OF THE

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

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2001 and 2000

[Report of Independent Auditors]

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

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

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

Years Ended August 31, 2001 and 2000

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

Deloitte + Touche LLP

November 30, 2001

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

BALANCE SHEETS
AUGUST 31, 2001 AND 2000

ASSETS	2001	2000
Cash and temporary investments (notes 2 and 3):		
Cash on hand	$ 200	$ 200
Cash in bank	28,068,586	3,690,774
Cash in State Treasury	211,496	839,010
Total cash and temporary investments	28,280,282	4,529,984
Interfund receivable	140	
Restricted assets:		
Short-term investments	103,911,546	158,123,802
Investments, net (notes 2 and 3)	1,004,647,907	829,503,064
Interest receivable	9,125,756	8,403,933
Mortgage loans receivable, net (notes 3 and 4)	521,157,343	423,310,855
Real estate owned, net (notes 3 and 5)	131,370	239,796
Total restricted assets	1,638,973,922	1,419,581,450
Consumable inventories	3,040	4,535
Notes receivable (note 1)	1,000,000	1,000,000
Fixed assets	1,671,246	1,738,906
Less accumulated depreciation	(1,340,064)	(1,273,519)
Deferred issuance costs, net (note 6)	12,007,766	11,714,608
Other assets	195,236	598,625
TOTAL ASSETS	$ 1,680,791,568	$ 1,437,894,589
LIABILITIES AND FUND EQUITY		
Accounts payable	$ 493,487	$ 568,848
Deferred revenues	6,695,147	6,009,577
Revenue bonds payable (notes 2, 3, 4 and 6)	1,435,379,247	1,272,236,566
Commercial paper notes payable	15,585,000	31,940,000
Accrued interest payable	22,039,446	21,929,294
Due to other funds	4,495	
Employees compensable leave	338,203	247,434
Due to other agencies	232	
Other liabilities	120,917,500	71,209,649
Total liabilities	1,601,452,757	1,404,141,368
Fund equity - retained earnings, restricted (note 3)	79,338,811	33,753,221
Commitments and contingencies (note 9)		
TOTAL LIABILITIES AND FUND EQUITY	$ 1,680,791,568	$ 1,437,894,589

See accompanying notes to the financial statements.

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

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

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

See accompanying notes to the financial statements.

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

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

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

(Continued)

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

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

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

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

See accompanying notes to financial statements. (Concluded)

1. GENERAL STATEMENT AND SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

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

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

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

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

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

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

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

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

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

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

Continuance Subject to Review

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

Significant Accounting Policies

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

(a) Fund Accounting

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

(b) Investments

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

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

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

(c) Mortgage-Backed Securities

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

(d) Note Receivable

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

(e) Loans Receivable

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

(f) Real Estate Owned

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

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

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

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

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

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

(h) Commitment Fees

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

(i) Deferred Issuance Costs

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

(j) Discounts and Premiums on Debt

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

(k) Fund Equity

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

(l) Cash Flows

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

(m) Interfund Transactions

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

(n) Gain/Loss on Refundings of Debt

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

(o) Loss on Early Extinguishment of Debt

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

(p) Estimates

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

(q) Reclassifications

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

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

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

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

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

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

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

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

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

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

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

(3) RESTRICTED ASSETS

Mortgage-backed securities, loans receivable and real estate owned are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishment of funds and accounts for the segregation of assets and restricting the use of bond proceeds and other funds in connection with each bond program. Such restricted assets, primarily investments, are as follows at August 31, 2001 (amounts in thousands):

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

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

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

(4) LOANS RECEIVABLE

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

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

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

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

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

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

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

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

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

5. REAL ESTATE OWNED

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

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

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

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

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

6. BONDS PAYABLE

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

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

	Original Face Amount	Balance August 31, 2000	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2001	Final Maturity Date
RMRB:						
1988 Series A - 6.5% to 7.6%	$ 40,920	$ 32,585	$ -	$ 1,050	$ 31,535	2018
1989 Series A - 6.6% to 7.6%	44,000	4,680		2,395	2,285	2016
1989 Series B - 7.85%	45,000	5,130		2,570	2,560	2018
1998 Series A - 4.05% to 5.35%	102,055	100,450		2,965	97,485	2031
1998 Series B - 5.30%	14,300	14,080		125	13,955	2022
1999 Series A - 4.80% to 5.50%	25,615	22,080		2,585	19,495	2021
1999 Series B-1 - 6.32% to 5.50%	52,260	51,925		915	51,010	2032
1999 Series C - 5 05% to 6.25%	12,150	12,150			12,150	2024
1999 Series D - 4.30% to 6.25%	26,355	25,170		3,060	22,110	2021
2000 Series A - 5.10% to 6 30%	50,000	50,000		225	49,775	2031
2000 Series B - 5 70%	82,975		82,975	15	82,960	2033
2000 Series C - 5.85% to 5.82%	13,675		13,675	5	13,670	2025
2000 Series D - 4.55% to 5 85%	18,265		18,265		18,265	2020
2000 Series E - 7.45%	10,000		10,000		10,000	2033
Total principal amount		318,250	124,915	15,910	427,255	
Unamortized premium		1,428			1,876	
Unamortized disc./loss on refund		(2,201)			(1,990)	
Total RMRB		317,477			427,141	
CHMRB:						
1991 Series A - 5.25% to 6.95%	36,000	16,125		1,665	14,460	2023
1992 Series A and B - linked rate averaging 6 90%	59,500	6,800		6,800		2024
1992 Series C - linked rate averaging 6.90%	72,700	72,700		2,200	70,500	2024
Total principal		95,625	-	10,665	84,960	
Plus unamortized premium		2,002			1,868	
Total CHMRB		97,627			86,828	
SF MRB CHMRB						
1993 Series A - 5.85%	11,695	7,290		850	6,440	2026
1993 Series B - 6.62%	15,000	9,355		1,170	8,185	2026
1993 Series C - 6.68%	15,000	10,010		1,225	8,785	2026
1993 Series D - 6.76%	8,000	4,755		590	4,165	2026
1993 Series E - 6.85%	8,780	3,955		565	3,390	2026
1994 Series A - 6.85%	35,395	26,275		1,965	24,310	2027
1994 Series B - 6.4%	33,385	24,920		2,505	22,415	2027
1994 Series C - 6.25%	15,360	12,215		850	11,365	2027
1995 MRRB Series A - 6.26%	5,825	1,945		635	1,310	2016
1995 MRRB Series B - 5.7%	2,030					2011
Total SF MRB CHMRB		100,720	-	10,355	90,365	

	Original Face Amount	Balance August 31, 2000	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2001	Final Maturity Date
Multifamily:						
1984 Series (Allied Bank Private Placement - Summer Bend at Las Colinas) - variable rate currently at 8%	$ 10,100	$ 8,360	$ -	$ 180	$ 8,180	2023
1987 Series (South Texas Rental Housing) - 9.5%	1,400	1,064		48	1,016	2013
1993 Series A and B Refunding (High Point III Development/Remington Hill Development)	26,370	12,490			12,490	2023
1993 Residential Rental (National Center) - 3.3% to 5.89%	16,775	15,145		315	14,830	2024
1996 Series A and B (Brighton's Mark) - 6.13%	9,748	8,075			8,075	2026
1996 Series A and B (Marks of Las Colinas) - 5 56%	14,870	14,870			14,870	2026
1996 Series A and B (Braxton's Mark) - 5.81%	14,274	14,274			14,274	2026
1996 Series A, B, C and D (Dallas-Fort Worth) - 6% to 10%	22,150	21,205		315	20,890	2026
1996 Series A, B, C and D (Harbors and Plumtree) - 5.9% to 10%	13,050	12,410		180	12,230	2026
1996 Series A and B (NHP Foundation) - 5.50% to 6 4%	27,560	26,335		420	25,915	2027
1997 Series (Meadow Ridge) 5.05% to 5.55%	13,575	13,575		155	13,420	2030
1998 Series (Pebble Brook) - 4.95% to 5.60%	10,900	10,900		65	10,835	2031
1998 Series A, B and C (Residence Oaks) - 5.98% to 7.18%	8,200	8,200		52	8,148	2031
1998 Series (Volente) - 5 00% to 5.63%	10,850	10,850		65	10,785	2031
1998 Series (Dallas - Oxford Rfdg) - 7.25%	10,300	10,300			10,300	2018
1998 Series (Greens) - 5.2% to 6.03%	13,500	13,500		70	13,430	2031
1999 Series (Mayfield) - 5.7% to 7.25%	11,445	11,445			11,445	2031
1999 Series (Woodglen Village) - 7.38% to 8.25%	10,660	10,660			10,660	2040
2000 Series (Timber Point) - Variable rate	8,100	8,100			8,100	2032
2000 Series (Oaks @ Hampton) - 7.20% to 9.00%	10,060	10,060			10,060	2040
2000 Series (Deerwood) - 5.25% to 6.40%	6,435	6,435			6,435	2033
2000 Series (Creek Point) - Variable rate	7,200	7,200			7,200	2032
2000 Series A/B (Parks @ Westmoreland - 7.20% to 9.00%	9,990	9,990			9,990	2040
2000 Series (Honeycreek) - 7.63% to 8.15%	20,485	20,485			20,485	2035
2000 MF Series A-C (Highland Meadow Apts) - 6.75% - 8%	13,500		13,500		13,500	2033
2000 MF Series A/B (Greenbridge) - 7.4% - 10%	20,085		20,085		20,085	2035 2041
2000 MF Series A-C (Collingham Park) - 6.72% - 7.72%	13,500		13,500		13,500	2041
2000 MF Series A/B (Williams Run) - 7.65% - 9.25%	12,850		12,850		12,850	2041

	Original Face Amount	Balance August 31, 2000	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2001	Final Maturity Date
2000 MF Series A/B (Red Hills Villas) - 8.4% - 9.5%	$ 10,300	$ -	10,300	$ 32	$ 10,268	2041
2001 MF Series (Bluffview Senior Apts) - 7 65%	10,700		10,700		10,700	2041
2001 MF Series (Knollwood Villas Apts) - 7.65%	13,750		13,750		13,750	2035
2001 MF Series (Skyway Villas) - 6.0% - 6 5%	13,250		13,250		13,250	2041
2001 MF Series A/B (Cobb Park) - 6.77%	7,785		7,785		7,785	
Total principal amount		285,928	$115,720	$ 4,541	967,877	
Unamortized discount		(111)			(104)	
Total Multifamily		285,817			967,773	
Total		$ 1,272,237			$ 1,435,397	

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

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

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

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

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

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

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

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

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

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

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

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

7. EMPLOYEE BENEFITS

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

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

8. SEGMENT FINANCIAL DATA

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

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

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

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

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

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

9. COMMITMENTS AND CONTINGENCIES

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

10. RISK FINANCING AND RELATED INSURANCE ISSUES

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

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

11. SUBSEQUENT EVENTS

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

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

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

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

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

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

$8,375,000	MF 2000 Series A

On September 13, 2001, the Department issued $14,310,000 in multifamily revenue bonds (Meridian Apartments) made up as follows:

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

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

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

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

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

SCHEDULE 1

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

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

See accompanying independent auditors' report.

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

SCHEDULE 2

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

	Single-Family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
Operating revenues:										
Interest and investment income	$ 33,584,368	$27,816,066	$	$ 2,291,192	$ 6,506,078	$23,038,867	$4,368,859	$ 387,204	$ 693,925	$ 98,686,559
Realized and unrealized gains on investments	18,001,906	9,573,027		1,436,509	3,595,825		2,793,892			35,401,159
Other operating revenues	4,215,418	854,114			89,256	618,387			2,578,932	8,356,107
Total operating revenues	55,801,692	38,243,207	-	3,727,701	10,191,159	23,657,254	7,162,751	387,204	3,272,857	142,443,825
Operating expenses										
Salaries and wages									3,018,868	3,018,868
Payroll related costs									583,784	583,784
Professional fees and services	79,000	9,500		5,000	3,000		3,000	38,446	232,344	370,290
Travel									72,448	72,448
Materials and supplies									128,643	128,643
Communication and utilities									93,290	93,290
Repairs and maintenance									303,668	303,668
Rentals and leases									492,056	492,056
Printing and reproduction									35,836	35,836
Depreciation and amortization	271,437	212,335		11,205	28,545	14,963	13,526		229,259	781,270
Claims and judgments									12,760	12,760
Interest expense	27,852,710	24,549,292		2,163,445	6,182,304	22,979,283	4,087,842	372,718		88,187,594
Other operating expenses	1,603,730	721,353		10,149	108,213	218	23,030	3,049	733,729	3,203,471
Total other expenses	29,806,877	25,492,480	-	2,189,799	6,322,062	22,994,464	4,127,398	414,213	5,936,685	97,283,978
Operating income (loss)	25,994,815	12,750,727		1,537,902	3,869,097	662,790	3,035,353	(27,009)	(2,663,828)	45,159,847
Gain (loss) on early extinguishment of debt	(642,656)	(235,890)		(36,742)	33,905	2	(33,011)			(914,392)
Operating transfer, net	803,661	(500,706)		(53,307)	(1,025,817)	(632,937)	(124,561)	21,323	2,852,479	1,340,135
Net income (loss)	26,155,820	12,014,131	-	1,447,853	2,877,185	29,855	2,877,781	(5,686)	188,651	45,585,590
Fund equity (deficit), beginning of year	24,943,783	(2,877,520)		(203,550)	(1,147,573)	1,325,718	(550,852)	20,711	12,242,504	33,753,221
Fund equity, end of year	$ 51,099,603	$ 9,136,611	$ -	$ 1,244,303	$ 1,729,612	$ 1,355,573	$2,326,929	$ 15,025	$12,431,155	$ 79,338,811

See accompanying independent auditors' report.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND ENTERPRISE FUND

SCHEDULE 3

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

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

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND ENTERPRISE FUND

SCHEDULE 3

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

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

(Concluded)

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

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

FOOTNOTES:

a. Interest payment is equal to the sum of all interest payments received with respect to the Mortgage Certificates, less the Agency Expense amount; and all earnings resulting from the investment of moneys on deposit in Funds established by the Indenture (not including the Cost of Issuance, Expense and Rebate Funds), less the rebate amount.

b. Interest payable on the bonds is an amount equal to the sum of all amounts transferred to the Interest Fund pursuant to the Trust Indenture which amount generally represents certain capitalized interest amounts, amounts representing interest on the GNMA Certificates, and certain investment earnings.

c. Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.

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

SCHEDULE 3

CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2001

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

(Continued)

CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2001

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

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

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

(Continued)

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

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

(Continued)

DEBT SERVICE REQUIREMENTS
AUGUST 31, 2001

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

(Concluded)

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

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

SCHEDULE 4

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

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

(Continued)

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

SCHEDULE 4

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

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

(Concluded)

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APPENDIX C

ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES

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Additional Information Concerning Mortgage Loans And Mortgage Certificates

The Texas Department of Housing and Community Affairs (the "Department") owns an extensive portfolio of mortgage loans (the "Portfolio Mortgage Loans") and GNMA/FNMA Certificates (Mortgage Certificates) acquired with the proceeds of the Department's Single Family Mortgage Revenue Bonds, Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds), Residential Mortgage Revenue Bonds, GNMA Collateralized Home Mortgage Revenue Bonds and Collateralized Home Mortgage Revenue Bonds. The following tables summarize certain information regarding the Portfolio Mortgage Loans and Mortgage Certificates, as of August 31, 2001, and are included solely for the purpose of providing comparative information with respect to the Portfolio Mortgage Loans and Mortgage Certificates. This information should not be construed as a representation or opinion of the Department that the information concerning the new Mortgage Loans and Mortgage Certificates will approximate the information shown below.

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

1980 Trust Indenture

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates Originated	Mortgage Loans / Certificates Outstanding
1980 A[(1)]	$ 150,000,000	$ 0	11.20 %	$ 135,128,160	$ 7,867,950
1982 A	100,000,000	0	13.93	14,212,374	124,608
1983 A[(1)]	238,800,000	0	10 79	216,279,114	14,814,743
1984 A/B	304,200,000	0	12.10/9.75	171,587,864	8,279,040
1985 A[(1)]	200,000,000	0	9.75	118,045,235	14,636,701
1985 B[(1)]	123,996,157	0	9.70/9 55	29,176,707	3,228,599
1985 C[(1)]	30,000,000	0	8.20	27,726,028	5,704,447
1986 A[(1)]	83,425,000	0	8.70	73,526,184	14,433,869
1986 B[(1)]	90,280,000	0	7.99/7.90	82,298,613	21,674,069
1987 A	14,840,000	0	—	---	---
1987 B	77,700,000	0	7.99/8.05/8.70	69,445,860	13,582,520
1991 A	81,605,000	17,060,000	---	---	---
1995 A-1, B-1, C-1	167,125,000	111,350,000	6.65	98,309,227	70,493,111
1996 A, B, C	59,140,000	32,920,000	5.95*	19,273,572	16,454,650
1996 D, E	169,490,000	122,390,000	6 75	92,277,298	74,536,711
1997 A, B, C	79,500,000	74,240,000	5.95*	78,969,869	68,881,268
1997 D, E, F	85,090,000	66,295,000	5.95*	66,463,700	60,302,284
TOTAL	$ 2,055,191,157	$424,255,000		$ 1,292,719,805	$ 395,014,570

* = "Buy Down" Rate

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

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

1994 Junior Lien Trust Indenture
Single Family Mortgage Revenue Refunding Bonds

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Certificates Originated	Mortgage Certificates Outstanding
1994 A	$ 35,000,932	$ 11,811,312	5.95/6.65/6.75%	$ 11,354,583	$ 9,751,553
1994 B	55,995,000	-	5.95	2,784,029	2,709,783
TOTAL	$ 90,995,932	$ 11,811,312		$ 14,138,612	$ 12,461,336

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

Loan Type	Prior Mortgage Loans	Principal Amount	Total Prior Mortgage Loans
Conventional	1,349	$ 48,331,452	49.23%
FHA	1,287	52,774,360	46.97%
VA	104	3,240,735	3.80%
Total	2,740	$ 104,346,547	100.00%

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

Conventional

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	84	$ 2,897,801	6.22%
60 days	22	834,788	1.63%
90 days or more	13	447,856	0.96%
Total	119	$ 4,180,445	8.81%

FHA

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	60	$ 2,626,999	4.66%
60 days	7	306,542	0.54%
90 days or more	18	832,588	1.39%
Total	85	$ 3,766,129	6.59%

VA

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	5	$ 180,478	4.80%
60 days	3	118,835	2.88%
90 days or more	6	217,666	5.76%
Total	14	$ 516,979	13.44%

TOTAL

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	149	$ 5,705,278	5.43%
60 days	32	1,260,165	1.16%
90 days or more	37	1,498,110	1.35%
Total	218	$ 8,463,553	7.94%

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

Series	Mortgage Rate	Total Loans Acquired	Total Loans Prepaid(2)	Percent Prepaid
1980 Series A	11.20	2,947	2,643	89.68%
1982 Series A	13.93	340	330	97.06%
1983 Series A	10.79	3,737	3,341	89.40%
1984 Series A/B	12.10/9.75	3,040	2,804	92.24%
1985 Series A	9.75	2,011	1,638	81.45%
1985 Series B	9.70/9.55	558	466	83.51%
1985 Series C	8.20	462	321	69.48%
1986 Series A	8.70	1,121	802	71.54%
1986 Series B	7.99/7.90	1,291	800	61.97%
1987 Series B	7.99/8.05/8.70	1,168	790	67.64%
Totals		16,675	13,935	83.57%

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

From the inception of the Department's single family mortgage program through August 31, 2001, the Department had foreclosed on 3,032 Portfolio Mortgage Loans having an unpaid principal balance at default of $156,255,655. As of August 31, 2001, the Department continued to hold title to property securing three of such Portfolio Mortgage Loans aggregating $88,073 in unpaid principal balance. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has employed outside contractors to manage, maintain, and arrange for sale, in conjunction with brokers, such real estate owned.

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

Master Servicers—Mortgage Certificate Loans–Single Family

Servicers	Percent of Total Loans
First Nationwide Mortgage	54.60%
Texas Star Mortgage	45.40%
Total	100.00%

Servicers—Mortgage Loans–Single Family

Servicers	Percent of Total Loans
Mitchell Mortgage Company	48.46%
Meritech Mortgage Services, Inc.	16.62%
First Nationwide Mortgage	12.83%
First Horizon Home Loan Corp.	5.88%
Guaranty Residential Lending, Inc.	5.85%
Other	10.36%
Total	100.00%

Mortgage Pool Insurance and Self Insurance Fund Balance

Single Family Mortgage Revenue Bonds

Initial Bond (Refunded Bond) Series	Insurance Provider	Remaining Coverage Amount
1980A	MGIC	$ 5,473,722
1982A	MGIC	1,005,444
1983A	MGIC	8,674,273
1984A/B	GEMIC	5,745,890
1985A	MGIC	4,180,703
1985B/C	MGIC	5,014,307
1986A(1996B)(3)	Self Insurance	925,223
1986B(1996E)(3)	Self Insurance	1,405,891
1987B(1997E)(3)	Self Insurance	1,218,660
Total		$ 33,644,113

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

Reserve Fund Balance

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

	Debt Service Reserve[4]	
Bond Series	Par Value Fund Balances Actual	Average Investment Rate[5]
1991A	3,024,931	7.875%
1994 A&B	419,151	6.350%
1996 A-C	310,199	9.576%
1996 D-E	1,260,972	12.181%
Total	$ 5,015,253	

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

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

Part II: Other Information

Mortgage Loan Information Management System

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

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

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Other Indebtedness of The Department

General - Single Family Since 1979, the year of creation of the Texas Housing Agency (the "Agency"), a predecessor to the Department, there have been issued by the Agency or the Department, nineteen series of Residential Mortgage Revenue Bonds, twenty-seven series of Single Family Mortgage Revenue Bonds, two series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, ten series of GNMA/FNMA Collateralized Home Mortgage Revenue Bonds, eleven series of Collateralized Home Mortgage Revenue Bonds, and two series of Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds. As of August 31, 2001, the outstanding principal amount of bonded indebtedness of the Department for single family housing purposes was $1,038,646,312.

General - Multifamily The Department and the Agency have issued ninety four 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 August 31, 2001, fifty-five series were outstanding with an aggregate outstanding principal amount of $399,751,009.

Single Family Mortgage Revenue Bonds ("SFMRBs") The Department has issued twenty-seven series of Single Family Mortgage Revenue and Refunding Bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, and thirty-one indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by the SFMRB Indenture. As of August 31, 2001, fourteen series were outstanding with an aggregate outstanding principal amount totaling $424,255,000. For information concerning the portfolio of mortgage loans acquired with the SFMRBs, see "APPENDIX C – ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Junior Lien Bonds The Department has issued two series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, by and between the Department and Bank One, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the SFMRB Indenture. As of August 31, 2001, one series was outstanding with an aggregate outstanding principal of $11,811,312.

Residential Mortgage Revenue Bonds ("RMRBs") As of August 31, 2001, the Department has issued nineteen series of Residential Mortgage Revenue and Refunding Bonds pursuant to the Residential Mortgage Revenue Bond Trust Indenture and nineteen separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of August 31, 2001, fourteen series were outstanding with an aggregate outstanding principal amount of $427,255,000.

Collateralized Home Mortgage Revenue Bonds ("CHMRBs") The Department has issued eleven series of Collateralized Home Mortgage Revenue Bonds pursuant to the Collateralized Home Mortgage Revenue Bond Master Indenture and six separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of August 31, 2001, three series of CHMRBs were outstanding with an aggregate outstanding principal amount of $84,960,000.

Single Family Collateralized Home Mortgage Revenue Bonds – 1993 (SFCHMRB - 1993) The Department has issued five series of single family mortgage revenue bonds under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1993, amended as of February 1, 1995 by and between the Department and Bank One, Texas, NA. As of August 31, 2001, five series of the SFCHMRB – 1993s were outstanding with an aggregate outstanding principal amount of $30,965,000.

Single Family Collateralized Home Mortgage Revenue Bonds – 1994 (SFCHMRB – 1994) The Department has issued three series of single family mortgage revenue bonds in 1994 and 1995 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture dated as of November 1, 1994, supplemented by a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1994, as amended as of February 1, 1995, by and between the Department and Bank One, Texas, N.A. As of August 31, 2001, three series of the SFCHMRB – 1994s were outstanding with an aggregate outstanding principal amount of $58,090,000.

The Department has issued two series of single family mortgage revenue refunding bonds in 1995 for the purpose of refunding certain notes which previously refunded certain Bonds outstanding, under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture and a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture and Second Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, each dated as of November 1, 1994, each amended as of February 1, 1995, and each by and between the Department and Bank One, Texas, NA, as Trustee. As of August 31, 2001, one series was outstanding with an aggregate outstanding principal amount of $1,310,000.

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

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

APPENDIX E

INVESTMENT OF FUNDS RELATING TO OUTSTANDING OBLIGATIONS AND SENIOR LIEN BONDS

The following table summarizes certain information as of August 31, 2001 (except that information relating to the Series 2002A Bonds is as of the date of delivery thereof), regarding yields (calculated on the basis of stated maturity) on existing investments (valued at par) within the Reserve Fund, the Acquisition Fund and the Float Fund (as defined in Footnote 1 below) in connection with outstanding Obligations and the Series 2002A Bonds:

Fund or Account	Approximate Amount Invested (par value)	Average Investment Rate	Investment Maturity Date	Investment Security/ Investment Agreement Provider[2]
Reserve Fund				
Series 1994A/B	$419,151	6.350%	3/01/2016	FGIC GIC
Series 2002A	300,000	13.875%	5/15/2011	U.S. Treasury Bond
Float Fund[1]				
Series 1994 A/B	$229,128	5.974%	9/30/2029	FGIC GIC
Series 1994 A/B	1,426,416	N/A	N/A	Uninvested
Series 2002A	50,628	N/A	N/A	Repurchase Agreement
Acquisition Fund				
Series 1994 A/B	$1,465,674	3.680%	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 2002A	9,600,786	N/A	N/A	Repurchase Agreement

(1) Float Fund includes the Revenue Fund, Principal Fund, Interest Fund, Special Redemption Fund, Expense Fund, and Residual Revenues Fund. The amount of moneys invested in the Float Fund is substantially reduced each semi-annual period for the payment of debt service on the Bonds.

(2) "GIC" means guaranteed investment contract.

The following table summarizes certain information as of August 31, 2001, regarding yields (calculated on the basis of stated maturity) on existing investments (valued at par) within the Debt Service Reserve Fund and the Float Fund (as defined in Footnote 1 below) in connection with the outstanding Senior Lien Bonds:

Fund or Account	Approximate Amount Invested (par value)	Average Investment Rate	Investment Security/ Investment Maturity Date	Investment Agreement Provider[2]
Debt Service Reserve Fund				
Series 1991A	$3,024,931	7.875 %	11/15/2007	Treasury Bond
Series 1996 A/B/C	310,199	9.576	11/15/2013 - 2/15/2015	Ginnie Mae Mortgage Certificates
Series 1996 D/E/F	1,260,972	12.81	5/15/2014	Treasury Bond
Float Fund [1]				
Series 1982A	$ 16,728	6.080	9/30/2029	FGIC GIC
Series 1983A	77,933	3.768	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1984 A/B	1,334,231	6.055	9/30/2029	FGIC GIC
Series 1985 B/C	37,843	3.68	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1987 B	1,731,595	5.867	9/30/2029	CIBC Oppenheimer Repurchase Agreement
Series 1991A	9,504	6.077	9/30/2029	FGIC GIC
Series 1995 A/B	558,575	5.849	9/30/2029	FGIC GIC
Series 1995C	82,380	3.855	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1996 A/B/C	4,557,650	4.156	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1996 D/E	858,872	5.793	9/30/2029	FGIC GIC
Series 1997 A/B/C	6,074,747	3.959	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1997 D/E/F	1,707,757	3.960	9/04/2001	CIBC Oppenheimer Repurchase Agreement
Series 1984 A/B	$ 76,414	N/A	Cash	
Series 1985A	30,547	N/A	Cash	
Series 1987B	53,754	N/A	Cash	
Series 1991A	1,771,811	N/A	Cash	
Series 1995 A/B	6,473,761	N/A	Cash	
Series 1995C	2,498,984	N/A	Cash	
Series 1996 D/E	9,631,955	N/A	Cash	
Series 1997 D/E/F	4,327,995	N/A	Cash	

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

APPENDIX F

CERTAIN COMBINED FINANCIAL INFORMATION RELATING TO SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE

The following charts summarize certain matters relating to the financial condition of the Single Family Trust Indenture (combined for Senior Lien Bonds and the Obligations) for the fiscal years ending August 31, 1999, August 31, 2000, and August 2001. Such information has been derived from the audited financial statements of the Department for each of such fiscal years.

Texas Department of Housing and Community Affairs
Single Family Mortgage Revenue Bond Program
(Combined Senior Lien and Junior Lien Trust Indentures)
Statement of Revenues, Expenses and Changes in Fund Equity

For Fiscal Year Ending August 31

	1999	2000	2001
Operating Revenues:			
Interest and investment income	$42,609,035	$37,178,787	$33,584,368
Realized and unrealized gains on investments			18,001,906
Other operating revenues	1,124,915	771,498	4,215,418
Total Operating Revenues:	**$43,733,950**	**$37,950,285**	**$55,801,692**
Operating Expenses:			
Salaries and wages	$ –	$ –	$ –
Payroll related costs	–	–	–
Professional fees and services	61,700	22,525	79,000
Travel	–	–	–
Materials and supplies	–	–	–
Communication and utilities	–	–	–
Repairs and maintenance	–	–	–
Rentals and leases	–	–	–
Printing and reproduction	–	–	–
Depreciation and amortization	212,466	324,662	271,437
Claims and judgements	–	–	–
Interest expense	35,172,143	30,862,442	27,852,710
Other operating expenses	1,998,263	1,974,339	1,603,730
Total Other Expenses	**$37,444,552**	**$33,183,968**	**$29,806,877**
Operating Income (loss)	6,289,398	4,766,337	25,994,815
Realized and unrealized gains (losses) on investments	(15,182,688)	(6,763,049)	–
Gain (loss) on early extinguishment of debt	(1,517,841)	(1,153,684)	(642,656)
Operating transfer, net	(2,704,701)	(3,922,372)	803,661
Net Income (loss)	(13,115,832)	(7,072,768)	26,155,820
Fund equity (deficit), beginning of year	45,132,383	32,016,551	24,943,783
Fund Equity, End of Year	**$32,016,551**	**$24,943,783**	**$51,099,603**

Texas Department of Housing and Community Affairs
Single Family Mortgage Revenue Bond Program
(Combined Senior Lien and Junior Lien Trust Indentures)
Balance Sheet Information

For Fiscal Year Ending August 31

	1999	2000	2001
Assets			
Cash and temporary investments:			
Cash on hand	$ –	$ –	$ –
Cash in bank	1,257,694	2,895,265	27,240,233
Cash in State Treasury	–	–	–
Short-term investments	58,093,591	43,788,790	22,676,035
Investments, net	361,154,842	326,349,315	325,570,109
Receivables:			
Interest receivable	3,098,830	3,000,852	2,872,017
Note receivable related	–	–	–
Mortgage loans receivable net	155,947,649	133,542,299	117,532,261
Consumable inventories	–	–	–
Real estate owned, net	625,034	242,019	132,609
Fixed assets:			
Building (leasehold improvements)	–	–	–
Vehicle	–	–	–
Furniture and equipment	–	–	–
Less accumulated depreciation	–	–	–
Deferred issuance costs, net	6,422,309	5,528,453	4,947,742
Other assets	177,491	519,913	64,461
TOTAL ASSETS	$568,777,440	$515,866,906	$501,035,467
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	$ 118,628	$ 117,027	$ 101,900
Deferred revenues	3,219,450	3,043,617	2,829,906
Due to other funds	–	–	–
Due to other agencies	–	–	–
Revenue bonds payable	532,904,500	470,597,121	431,398,543
Commercial paper notes payable	–	–	–
Accrued interest payable	16,595,404	14,605,957	13,288,636
Employees compensable leave	–	–	–
Other liabilities	1,922,907	2,559,401	2,315,879
TOTAL LIABILITIES	$554,760,889	$490,923,123	$449,935,864
Fund equity retained earnings, restricted	$32,016,551	$24,943,783	$51,099,603
Total liabilities and fund equity	$586,777,440	$515,866,906	$501,034,467

APPENDIX G

APPLICABLE MEDIAN FAMILY INCOMES ("AMFI")

Area	60% of AMFI	100% of AMFI*
Austin-San Marcos Metro (1)	$42,660	$71,100
Brazoria Metro (2)	$34,260	$57,100
Dallas Metro (3)	$39,900	$66,500
Fort Worth - Arlington Metro (4)	$36,780	$61,300
Galveston - Texas City Metro (5)	$31,500	$52,500
Houston Metro (6)	$35,760	$59,600
Carson County	$31,200	$52,000
Delta County	$31,380	$52,300
Hemphill County	$31,020	$51,700
Kendall County	$38,280	$63,800
Loving County	$30,900	$51,500
Balance of State	$30,840	$51,400

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

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APPENDIX H

FORM OF PROPOSED OPINION OF BOND COUNSEL

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March __, 2001

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A (the "Series 2002A Bonds"). The initially issued Series 2002A Bonds shall bear interest from March 1, 2002. Interest on the Series 2002A Bonds is payable September 1, 2002, and semiannually thereafter on each March 1 and September 1 until maturity or prior redemption. The Series 2002A Bonds are issuable only as fully registered bonds without coupons in denominations of $5,000 or any integral multiple thereof. The Series 2002A Bonds are being issued in the principal amount, bear interest at the rate and mature on the date as provided in the Indenture mentioned below. The Bonds are subject to optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE SERIES 2002A BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on February 21, 2002 (the "Bond Resolution"), a Junior Lien Trust Indenture dated as of May 1, 1994, between the Department and Bank One, National Association, as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "Junior Lien Trust Indenture"), and a Third Supplemental Junior Lien Trust Indenture (Series Supplement 2002A), dated as of March 1, 2002 (the "Third Series Supplement") The Junior Lien Trust Indenture and the Third Series Supplement are referred to herein collectively as the "Indenture". The Series 2020A Bonds are being issued for the purpose of providing funds to make and acquire Series 2002A Mortgage Loans, funding reserves and paying a portion of the costs of issuance of the Series 2002A Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2002A Bonds upon the terms and conditions set forth in the Indenture. The Department reserves the right in the Indenture to issue other bonds of the Department for other programs similar to the program initially funded with the proceeds of the Series 2002A Bonds, and further reserves the right to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 2002A Bonds, all as provided in the Indenture.

THE SCOPE OF OUR ENGAGEMENT AS BOND COUNSEL extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Series 2002A Bonds and the security therefor. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2002A Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement). We have not assumed any responsibility with respect to the financial condition or capability of the Department or the disclosure thereof. In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certain proceedings pertaining to the Series 2002A Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. R-1.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

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

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Third Series Supplement. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Series 2002A Bonds. We draw your attention to the fact that the Bonds are secured on a subordinated basis with the Department's Single Family Mortgage Revenue Refunding Bonds, 1991 Series A; Single Family Mortgage Revenue Bonds, 1995 Series A-1; Single Family Mortgage Revenue Refunding Bonds, 1995 Series B-1; and Taxable Single Family Mortgage Revenue Bonds, 1995 Series C-1; Single Family Mortgage Revenue Bonds, 1996 Series A; Single Family Mortgage Revenue Refunding Bonds, 1996 Series B; Taxable Single Family Mortgage Revenue Bonds, 1996 Series C; Single Family Mortgage Revenue Bonds, 1996 Series D; Single Family Mortgage Revenue Refunding Bonds, 1996 Series E; Single Family Mortgage Revenue Bonds, 1997 Series A; Single Family Mortgage Revenue Refunding Bonds, 1997 Series B; Single Family Mortgage Revenue Bonds, 1997 Series D, Taxable Single Family Mortgage Revenue Refunding Bonds, 1997 Series E; and Taxable Single Family Mortgage Revenue Bonds, 1997 Series F, all issued under the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, as supplemented by the First through Thirty-First Supplements thereto. In addition, the Department may issue from time to time additional obligations under the Single Family Indenture the "Single Family Indenture") which will be secured on a superior basis to the Series 2002A Bonds. Further, we draw your attention to the fact that the Bonds are secured on a parity basis with the Department's Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A.

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

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

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

6. Interest on the Series 2002A Bonds is includable in gross income for federal income tax purposes under existing law.

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

THE OPINIONS SET FORTH ABOVE are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

Very truly yours,