

OFFICIAL STATEMENT

RATINGS: Series C/E Bonds Moody's: "Aaa"
Series C/E Bonds S&P: "AAA"
Series D Bonds Moody's: "Aaa/VMIG 1"
Series D Bonds S&P: "AAA/A-1+"
(See "RATINGS" herein)

Vinson & Elkins L.L.P., Bond Counsel, is of the opinion, that subject to certain conditions described herein, (i) prior to the first change of interest rate modes for which an opinion of nationally recognized Bond Counsel is required, interest on the Series D Bonds is excludable from gross income for federal income tax under existing law, (ii) interest on the Series C Bonds and the Series E Bonds is excludable from gross income for federal income tax purposes under existing law, and (iii) interest on the Series 2004 Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations and the requirement for an opinion of nationally recognized bond counsel in the event of certain changes of interest rate modes.

NEW ISSUES - BOOK-ENTRY ONLY

Table with 3 columns: Amount (\$41,245,000), Bond Type (Single Family Mortgage Revenue Bonds 2004 Series C (AMT)), Amount (\$35,000,000), Bond Type (Single Family Variable Rate Mortgage Revenue Bonds 2004 Series D (AMT)), Amount (\$10,825,000), Bond Type (Single Family Mortgage Revenue Refunding Bonds 2004 Series E (AMT))

Interest Accrues: Date of Delivery

Due: As shown on inside cover page

The Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Bonds, 2004 Series C (the "Series C Bonds"), the Texas Department of Housing and Community Affairs Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D (the "Series D Bonds"), and the Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Refunding Bonds, 2004 Series E (the "Series E Bonds", together with the Series C Bonds, the "Series C/E Bonds", together with the Series C Bonds and the Series D Bonds, the "Series 2004 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 2004 Bonds. The Series C/E Bonds will be available to purchasers only in book-entry form in denominations of \$5,000 or any integral multiple thereof. The Series D Bonds will be available to purchasers only in book-entry form in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. For as long as Cede & Co. is the exclusive registered owner of the Series 2004 Bonds, the principal or redemption price of and interest on the Series 2004 Bonds will be payable by J.P. Morgan Trust Company, National Association, in Fort Worth, 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 2004 Bonds. The purchasers of the Series 2004 Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 2004 BONDS - DTC and Book-Entry."

Payment of the principal of and interest on the Series 2004 Bonds will be insured by a Financial Guaranty Insurance Policy to be issued by Financial Security Assurance Inc. concurrently with the delivery of the Series 2004 Bonds. See "BOND INSURANCE" herein.



The Series C/E Bonds will accrue interest from the date shown above until maturity or prior redemption. Interest on the Series C/E Bonds will be payable to DTC commencing on March 1, 2005, and semi-annually thereafter on each September 1 and March 1 until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

The Series D Bonds will initially bear interest at the Weekly Interest Rate from their date of original issuance and delivery unless and until converted to a different Interest Rate Period at the direction of the Department and upon satisfaction of certain conditions described herein. While the Series D Bonds bear interest at a Weekly Interest Rate, interest on the Series D Bonds will be payable to DTC commencing on March 1, 2005, and semi-annually thereafter on each September 1 and March 1 until maturity or prior redemption thereafter, all as more fully described herein. The interest rate on the Series D Bonds may be changed from time to time by the Department to a Daily Interest Rate, Weekly Interest Rate, Short-Term Interest Rate, Alternate Interest Rate or to a Long-Term Interest Rate, to be determined by the Remarketing Agent (initially, Piper Jaffray & Co.) in the manner described herein. Interest will be payable on the Series D Bonds at the times and in the manner described herein.

WITH RESPECT TO THE SERIES D BONDS, THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES D BONDS ONLY WHILE THE SERIES D BONDS BEAR INTEREST AT A WEEKLY INTEREST RATE.

The registered owners of the Series D Bonds will have the right, and in certain circumstances may be required, to tender their Series D Bonds for purchase in the manner described herein, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of purchase. The Bondholders will have no right to elect to retain their Series D Bonds following any mandatory purchase. The purchase price of any Series D Bonds tendered or deemed tendered for purchase and not remarketed by the purchase date will (subject to certain conditions described herein) be payable from (i) amounts made available under a Standby Bond Purchase Agreement between the Department, the Tender Agent and DEPFA BANK plc, acting by and through its New York Branch (the "Liquidity Facility") and (ii) amounts made available by the Department.

THE SERIES D BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY TENDER. See "THE SERIES 2004 BONDS - Tender Provisions". THE SERIES 2004 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 2004 BONDS - Redemption Provisions."

The Series C Bonds and the Series D Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "Mortgage Certificates") backed by qualifying FHA-insured or VA- or RHS-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. For certain purchase price and income restrictions, see "THE PROGRAM AND THE MORTGAGE LOANS." The Mortgage Certificates will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae") (the "Ginnie Mae Certificates"), Freddie Mac ("Freddie Mac") ("Freddie Mac Certificates") or Fannie Mae ("Fannie Mae") (the "Fannie Mae Certificates"). See APPENDIX C-1, APPENDIX C-2 and APPENDIX C-3. The proceeds of the Series E Bonds will be used for the purpose of refunding and redeeming all of the Department's outstanding Collateralized Home Mortgage Revenue Bonds, Series 1993A, Series 1993B, Series 1993C, Series 1993D, and Series 1993E. The Series 2004 Bonds, the Prior Bonds (as defined herein), and unless subordinated, all bonds subsequently issued under the Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Trust Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE."

The Department expects to sell its Single Family Mortgage Revenue Bonds, 2004 Series F (the "Series F Bonds") on October 21, 2004 and reoffer such bonds to the public. It is expected that the Series 2004 Bonds will be delivered at closing on the same day as the Series F Bonds.

THE SERIES 2004 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, INCLUDING GINNIE MAE, FREDDIE MAC, AND FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2004 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GINNIE MAE, FREDDIE MAC, AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES, THE FREDDIE MAC CERTIFICATES, AND THE FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 2004 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

The Series 2004 Bonds are offered when, as, and if issued by the Department. Delivery of the Series 2004 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, Chris G. Wittmayer, 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, Andrews Kurth LLP. It is expected that the Series 2004 Bonds will be available for delivery to DTC in book-entry only form on or about October 28, 2004.

PIPER JAFFRAY & CO.\*\*
A.G. EDWARDS & SONS, INC.
GOLDMAN, SACHS & CO.

BEAR, STEARNS & CO. INC.
FIRST SOUTHWEST COMPANY
RAMIREZ & CO., INC.

September 30, 2004

\*\*Sole underwriter with respect to the Series D Bonds.

## MATURITY SCHEDULE

### \$41,245,000 Series C Bonds (AMT)

\$3,515,000 4.30% Term Series C Bonds due March 1, 2019 Price 100%  
\$6,140,000 4.50% Term Series C Bonds due September 1, 2024 Price 100%  
\$6,655,000 4.75% Term Series C Bonds due September 1, 2030 Price 100%  
\$17,000,000 5.00% Premium PAC Term Series C Bonds due March 1, 2035 Price 105.310%  
\$3,970,000 4.80% Term Series C Bonds due March 1, 2036 (Not Reoffered)  
\$3,965,000 4.80% Term Series C Bonds due March 1, 2036 Price 100%

(Accrued Interest From Date of Delivery)

### \$35,000,000 Series D Bonds (AMT)

Variable Rate Demand Bonds Due March 1, 2035

(Accrued Interest From Date of Delivery)

### \$10,825,000 Series E Bonds (AMT)

\$9,390,000 Serial Series E Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>
September 1, 2006	\$505,000	2.45%	(NRO)
September 1, 2006	300,000	2.45%	100%
March 1, 2007	490,000	2.60%	(NRO)
March 1, 2007	50,000	2.60%	100%
September 1, 2007	550,000	2.70%	(NRO)
March 1, 2008	555,000	2.90%	100%
September 1, 2008	565,000	3.00%	100%
March 1, 2009	575,000	3.25%	100%
September 1, 2009	590,000	3.35%	100%
March 1, 2010	600,000	3.50%	100%
September 1, 2010	615,000	3.65%	100%
March 1, 2011	525,000	3.85%	(NRO)
March 1, 2011	100,000	3.85%	100%
September 1, 2011	645,000	3.85%	(NRO)
March 1, 2012	655,000	4.00%	100%
September 1, 2012	675,000	4.00%	100%
March 1, 2013	690,000	4.10%	100%
September 1, 2013	705,000	4.10%	100%

\$1,435,000 4.30% Term Series E Bonds due March 1, 2019 Price 100%

(Accrued Interest From Date of Delivery)

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 2004 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. This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under such document shall, under any circumstances, create any implications that there has been no change in the affairs of the Department or other matters described herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. 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.

Neither the Department nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Preliminary Official Statement.

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 2004 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004 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 2004 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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## TABLE OF CONTENTS

INTRODUCTION .....	1
PLAN OF FINANCE .....	4
SOURCES AND USES OF FUNDS .....	5
THE SERIES 2004 BONDS .....	5
THE LIQUIDITY FACILITY AND THE BANK .....	27
SWAP AGREEMENT .....	32
SECURITY FOR THE BONDS .....	33
BOND INSURANCE .....	38
ASSUMPTIONS AND RISKS .....	39
THE DEPARTMENT .....	42
THE PROGRAM AND THE MORTGAGE LOANS .....	45
THE TRUST INDENTURE .....	54
TEXAS TREASURY SAFEKEEPING TRUST COMPANY .....	63
TAX MATTERS .....	64
CONTINUING DISCLOSURE OF INFORMATION .....	69
RATINGS .....	71
UNDERWRITING .....	72
FINANCIAL ADVISOR .....	72
FINANCIAL STATEMENTS .....	72
LITIGATION MATTERS .....	73
LEGALITY FOR INVESTMENT .....	73
VERIFICATION OF MATHEMATICAL COMPUTATIONS .....	73
APPROVAL OF LEGALITY .....	74
ADDITIONAL INFORMATION .....	74
APPENDIX A GLOSSARY .....	A-1
APPENDIX B SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS .....	B-1
APPENDIX C-1 GINNIE MAE AND THE GINNIE MAE CERTIFICATES .....	C-1
APPENDIX C-2 FREDDIE MAC AND THE FREDDIE MAC CERTIFICATES ...	C-2
APPENDIX C-3 FANNIE MAE AND THE FANNIE MAE CERTIFICATES .....	C-3
APPENDIX D-1 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT FOR THE FISCAL YEARS ENDED AUGUST 31, 2003 AND 2002 .....	D-1
APPENDIX D-2 UNAUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT FOR 10-MONTH PERIOD ENDED JUNE 30, 2004 .....	D-2
APPENDIX E FORM OF PROPOSED OPINION OF BOND COUNSEL .....	E-1
APPENDIX F-1 THE DEPARTMENT'S MORTGAGE LOAN PORTFOLIO .....	F-1
APPENDIX F-2 OTHER INDEBTEDNESS OF THE DEPARTMENT .....	F-2
APPENDIX G INVESTMENT OF FUNDS RELATING TO PRIOR BONDS ....	G-1
APPENDIX H APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS .....	H-1
APPENDIX I SPECIMEN INSURANCE POLICY .....	I-1

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## OFFICIAL STATEMENT

Relating to

### TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

<b>\$41,245,000</b>	<b>\$35,000,000</b>	<b>\$10,825,000</b>
<b>Single Family Mortgage Revenue Bonds 2004 Series C (AMT)</b>	<b>Single Family Variable Rate Mortgage Revenue Bonds 2004 Series D (AMT)</b>	<b>Single Family Mortgage Revenue Refunding Bonds 2004 Series E (AMT)</b>

## INTRODUCTION

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its \$41,245,000 Single Family Mortgage Revenue Bonds, 2004 Series C (the "Series C Bonds"), \$35,000,000 Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D (AMT) (the "Series D Bonds"), and \$10,825,000 Single Family Mortgage Revenue Refunding Bonds, 2004 Series E (the "Series E Bonds", together with the Series C Bonds, the "Series C/E Bonds," together with the Series C Bonds and the Series D Bonds, the "Series 2004 Bonds"). Capitalized terms used but not otherwise defined herein shall have the respective meanings for such terms as set forth in "APPENDIX A - GLOSSARY".

It is expected that at least fifteen (15) days after the sale of the Series 2004 Bonds, the Department will sell its "Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Bonds, 2004 Series F" (the "Series F Bonds"), in an expected principal amount of \$88,000,000. The Series F Bonds are expected to close on the same day as the Series 2004 Bonds. The Series F Bonds will be on a parity in all respects with the Series 2004 Bonds and the Prior Bonds (hereinafter defined), and any Investment Securities entered into in connection with the Series F Bonds shall also constitute security for the Series 2004 Bonds and the Prior Bonds. The offering of the Series F Bonds shall be pursuant to a separate offering document.

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

The Series 2004 Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on September 9, 2004, a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980 (the "Master Indenture" and, as amended and supplemented from time to time, collectively, the "Trust Indenture") between the Agency or the Department, as the case may be, and The Fort Worth National Bank or its successor, J.P. Morgan Trust Company, National Association, as trustee (the

"Trustee"), and a Thirty-Eighth Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Eighth Supplemental Indenture") between the Department and the Trustee, dated as of October 1, 2004 with respect to the Series C Bonds, a Thirty-Ninth Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Thirty-Ninth Supplemental Indenture") between the Department and the Trustee, dated as of October 1, 2004 with respect to the Series D Bonds, and a Fortieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Fortieth Supplemental Indenture") between the Department and the Trustee, dated as of October 1, 2004 with respect to the Series E Bonds. The Thirty-Eighth Supplemental Indenture, the Thirty-Ninth Supplemental Indenture and the Fortieth Supplemental Indenture are collectively referred to as the "2004 Supplemental Indenture". The Trust Indenture authorizes the Department to issue bonds to provide funds to acquire or refinance single family mortgage loans or participations therein ("Mortgage Loans") which are made to eligible borrowers, as determined from time to time by the Department, to refund Outstanding Bonds issued under the Trust Indenture, and to pay costs associated therewith. The Department has previously issued thirty-three prior series of single family mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which \$509,100,000 in aggregate principal amount was Outstanding as of June 30, 2004. See "SECURITY FOR THE BONDS -- The Single Family Mortgage Revenue Bonds." The Series 2004 Bond, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the "Bonds" or the "Single Family Mortgage Revenue Bonds") will be equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Trust Indenture. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Additional Bonds" and "SECURITY FOR THE BONDS - Junior Lien Bonds."

In addition to the Single Family Mortgage Revenue Bonds, the Department has previously issued four (4) series of Junior Lien Bonds (the "Prior Junior Lien Bonds" ), of which \$14,085,000 in aggregate principal amount was outstanding as of June 30, 2004. The Junior Lien Bonds are limited obligations of the Department and are payable solely from revenues (as defined in the Junior Lien Trust Indenture) and funds pledged for the payment thereof on a basis which is junior and subordinate to the Bonds. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Junior Lien Bonds."

The Series C Bonds and the Series D Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates (the "2004 Mortgage Certificates") guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae"), Freddie Mac or Fannie Mae which represent beneficial ownership of pools of Mortgage Loans (the "2004 Mortgage Loans"), for funding capitalized interest, and for paying a portion of the costs of issuance of the Series 2004 Bonds. The Series E Bonds are being issued to refund the Refunded Bonds. The 2004 Mortgage Certificates together with the mortgage pass-through certificates acquired with proceeds of the Prior Bonds or Bonds subsequently issued pursuant to the Trust Indenture are referred, to herein, respectively, as the "Mortgage Certificates." Approximately \$15,000,000 of the lendable funds made available through the issuance of the Series 2004 Bond will be set aside for at least one year for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. The remaining lendable funds will be made available for Mortgage Loans to borrowers of low and moderate incomes whose family income does not exceed, for families of three persons or more, one hundred fifteen percent (115%) (one hundred forty percent (140%) in targeted areas) of applicable median family income, and, for individuals and families of two persons, one hundred percent (100%) (one hundred twenty percent (120%) in targeted areas) of applicable median family income. See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation", -- "-Low and Moderate Income Reservation," "Grant Assistance Program and Down Payment Assistance Program" and "ASSUMPTIONS AND RISKS - Non-Origination of Mortgage Loans."

The Bonds are payable solely from and are secured by a pledge of and lien on the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), Investment Securities, moneys held in the Funds (excluding the Rebate Account, the 2004 C/D/E Swap Agreement Termination Payment Subaccount,



the 2004 C/D/E Swap Agreement Termination Receipt Subaccount and the Policy Payments Account) and other property pledged under the Trust Indenture (collectively, the "Trust Estate"). All payments with respect to principal of and interest on Mortgage Loans (net of servicers' fees) and on Mortgage Certificates (net of servicing and guaranty fees) received by the Department and the earnings on investments of Funds and Accounts held pursuant to the Trust Indenture other than the excluded Funds and Accounts constitute Revenues. Bondholders have no rights to or lien on the Swap Agreement. The pledge of and lien on the Trust Estate is subject to discharge if moneys or qualified securities sufficient to provide for the payment of all Outstanding Bonds are deposited and held in trust for such payment. See "SECURITY FOR THE BONDS - The Prior Bonds" and "SWAP AGREEMENT."

**The Series 2004 Bonds are on a parity in all respects with all outstanding Prior Bonds, and, unless subordinated, any bonds subsequently issued under the Trust Indenture, including the Series F Bonds.** The Mortgage Loans securing the Bonds must be (i) in an amount not greater than eighty percent (80%) of the lesser of (a) the appraised value of the mortgaged property or (b) the sales price of the mortgaged property, or (ii) insured by the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs (formerly, the Veterans Administration) ("VA") or (iii) insured by a private mortgage insurance company which has been approved by the Department in the amount by which the Mortgage Loan exceeds eighty percent (80%) of the value of the mortgaged property. The Trust Indenture also permits the acquisition of Mortgage Loans guaranteed by another agency or instrumentality of the United States exercising powers similar to FHA or VA, such as the United States Department of Agriculture Rural Housing Services ("RHS"). In addition, the Department may purchase Mortgage Certificates that are backed by Mortgage Loans. In connection with each series of Prior Bonds, the Department either obtained a mortgage pool insurance policy in an amount at least equal to ten percent (10%) of the initial aggregate amount of Mortgage Loans purchased, provided for a mortgage pool self-insurance reserve or used proceeds to acquire Mortgage Certificates. As of June 30, 2004, of the \$39,235,165 Mortgage Loans (excluding Mortgage Certificates representing Mortgage Loans) held under the Trust Indenture, according to principal amount, \$20,164,567 were Conventional Mortgage Loans, \$17,576,110 were FHA Mortgage Loans, and \$1,494,488 were VA-guaranteed Mortgage Loans. Each Eligible Borrower is required to maintain standard hazard insurance coverage and, if applicable, flood insurance.

The Trust Indenture establishes a Debt Service Reserve Account (the "Debt Service Reserve Account") within the Debt Service Fund. The Trust Indenture requires that the Debt Service Reserve Account be maintained in an amount at least equal to three percent (3%) of the aggregate principal amount of the Mortgage Loans outstanding (zero percent (0%) for Mortgage Loans represented by Mortgage Certificates) from time to time (the "Debt Service Reserve Account Requirement"). Moneys in the Debt Service Reserve Account will be made available in the event that there are insufficient funds on deposit in the other accounts of the Debt Service Fund and the Mortgage Loan Fund, respectively, to pay, when due, principal of and interest on the Series 2004 Bonds or any other Outstanding Bonds. As of June 30, 2004, the Debt Service Reserve Account Requirement for the Single Family Mortgage Revenue Bonds was \$1,085,122 and \$1,085,122 was on deposit in the Debt Service Reserve Account. Because the Mortgage Loans to be made with proceeds of the Series 2004 Bonds are to be backed by Mortgage Certificates, no deposit to the Debt Service Reserve Account will be made in connection with the issuance of the Series 2004 Bonds. See "THE TRUST INDENTURE" herein.

**THE SERIES 2004 BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, FREDDIE MAC AND FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2004 BONDS. NEITHER THE FAITH**

**AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GINNIE MAE, FREDDIE MAC AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES, FREDDIE MAC CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 2004 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.**

There follows in this Official Statement a brief description of the plan of finance, the Department and its bond programs, together with summaries of certain terms of the Series 2004 Bonds, the Trust Indenture, and certain provisions of the Act, as well as other matters. All references herein to the Act, the Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

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

## **PLAN OF FINANCE**

The Series F Bonds will be delivered on the same day as the Series 2004 Bonds. The Series F Bonds are being offered for sale separately from the Series 2004 Bonds. This Preliminary Official Statement is not intended to apply to the Series F Bonds.

Proceeds of the Series C Bonds and the Series D Bonds will be deposited to the 2004 C/D/E Mortgage Loan Account of the Mortgage Loan Fund and used to purchase 2004 Mortgage Certificates, to fund capitalized interest, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

Proceeds of the Series E Bonds are to be applied, within ninety (90) days after the date of issuance of the Series 2004 Bonds to refund and redeem, respectively, an equal amount of the Refunded Bonds, thereby resulting in a transfer of 1993 Mortgage Loans to the Series E Bonds. See "SOURCES AND USES OF FUNDS" herein.

In connection with the issuance of the Series D Bonds, the Department will enter into an interest rate swap agreement (the "Swap Agreement") with Goldman Sachs Capital Markets, L.P. (the "Swap Provider"), which will become effective upon the delivery of the Series D Bonds. Pursuant to the Swap Agreement payments will begin accruing January 1, 2005 and payments will be made semiannually beginning on March 1, 2005, computed based on a variable rate intended to approximate the variable interest rate on the Series D Bonds, on a notional amount corresponding to the outstanding principal amount of the Series D Bonds, provided that the variable rate payments to the Department may not equal the variable interest payable on the Series D Bonds. The Department will agree to pay to the Swap Provider on such dates, payments computed at a fixed rate, on the same notional amount. Payments from the Department to the Swap Provider under the Swap Agreement are subordinate to payments of principal of and interest on the Bonds. The Department's scheduled payments under the Swap Agreement to the Swap Provider will be insured by Financial Security Assurance Inc. (the "Swap Policy"). The Swap Policy does not insure payments of principal of or interest on the Series 2004 Bond. See "SWAP AGREEMENT."

## SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 2004 Bonds are expected to be approximately as set forth below.

### Sources:

Series C Bond Proceeds	\$41,245,000
Series C Bond Premium	902,700
Series D Bond Proceeds	35,000,000
Series E Bond Proceeds	10,825,000
Master Servicer Premium	750,000
Issuer Contribution	<u>250,000</u>
<b>Total Sources</b>	<b><u>\$88,972,700</u></b>

### Uses:

2004 C/D/E Mortgage Loan Account	\$75,000,000
Redemption of Refunded Bonds	11,149,750
Deposit to Capitalized Interest Subaccount	1,562,432
Underwriters' Compensation	485,483
Costs of Issuance	479,479
Deposit to Series F Bonds Costs of Issuance Account	<u>295,556</u>
<b>Total Uses</b>	<b><u>\$88,972,700</u></b>

## THE SERIES 2004 BONDS

### General

#### *Series C/E Bonds*

The Series C/E Bonds will be dated the date of delivery. The Series C/E 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 C/E Bonds. The Series C/E Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof, as more fully described herein. The principal or Redemption Price of, and interest on the Series C/E 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 C/E Bonds or their nominees. See "THE SERIES 2004 BONDS - DTC and Book-Entry."

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

### ***Series D Bonds***

The Series D Bonds will be dated the date of delivery and will mature, subject to prior redemption as described below, on March 1, 2035. The Series D Bonds will be issued as fully registered bonds in book-entry-only form and will be subject to the provisions of the book-entry-only system described under "--Book-Entry-Only System" below. While the Series D Bonds bear interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates, individual purchases of Series D Bonds by the beneficial owners will be made in denominations of \$100,000 and any whole multiple of \$5,000 in excess of \$100,000. While Series D Bonds bear interest at a Long-Term Interest Rate, individual purchases of Series D Bonds by the beneficial owners will be made in denominations of \$5,000 or any whole multiple thereof.

The Series D Bonds will initially bear interest at a Weekly Interest Rate. The method of determining interest rates on the Series D Bonds is subject to being changed from a Weekly Interest Rate to a Daily Interest Rate, Bond Interest Term Rates, a Long-Term Interest Rate or an Alternate Rate as described below. Each period during which a Daily Interest Rate is in effect is known as a Daily Interest Rate Period, each period during which a Weekly Interest Rate is in effect is known as a Weekly Interest Rate Period, each period during which Bond Interest Term Rates are in effect is known as a Short-Term Interest Rate Period, each period during which a Long-Term Interest Rate is in effect is known as a Long-Term Interest Rate Period, and each period during which an Alternate Rate is in effect is known as an Alternate Rate Period. An Interest Rate Period means any Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or Alternate Rate Period.

Interest on the Series D Bonds shall be payable on each Interest Payment Date for such Series D Bonds by the Paying Agent during any Daily Interest Rate Period, Weekly Interest Rate Period, or Long-Term Interest Rate Period, by check mailed on the date on which interest is due to the Owners of the Series D Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the addresses of Owners as they shall appear on the registration books maintained pursuant to the Thirty-Ninth Supplemental Indenture. In the case of (i) Series D Bonds bearing interest at Bond Interest Term Rates, (ii) Series D Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility (the "Escrow Bonds") or (iii) Series D Bonds bearing interest at other than a Bond Interest Term Rate in an aggregate principal amount in excess of \$1,000,000, as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date for such Series D Bonds, shall have provided, to the Paying Agent wire transfer instructions, interest payable on such Series D Bonds shall be paid by wire transfer (in the continental United States) of immediately available funds in accordance with the wire transfer instructions provided by the Owner of such Series D Bonds (or by the Remarketing Agent on behalf of such Owner); provided, however, that during any Short-Term Interest Rate Period for any Series D Bonds, interest on any Series D Bond shall be payable only upon presentation and surrender of such Series D Bond to the Tender Agent at its principal office.

As the Paying Agent for the Series D Bonds, J.P. Morgan Trust Company, National Association will keep the books of the Department for registration, registration of transfer, exchange and payment of the Series D Bonds as provided in Thirty-Ninth Supplemental Indenture.

The Series D Bonds will be subject to optional and mandatory tender for purchase under certain circumstances as described below.

## **Interest Rates**

### ***Series C/E Bonds***

The Series C/E Bonds will accrue interest from the date of delivery, until maturity or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest accrued on the Series C/E Bonds will be payable on March 1, 2005 and semiannually on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Series C/E Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

### ***Series D Bonds***

Interest on the Series D Bonds will be computed, in the case of a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period or an Alternate Rate Period, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed and, in the case of a Long-Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months. The first Interest Rate Period for the Series D Bonds shall commence on the date of original issuance of the Series D Bonds and shall be a Weekly Interest Rate Period. On or prior to such date of original issuance, the initial Weekly Interest Rate borne by the Series D Bonds shall be determined by the Remarketing Agent.

The term of the Series D Bonds will be divided into separate Interest Rate Periods selected by the Department during each of which the Series D Bonds will bear interest at either a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, a Long-Term Interest Rate or an Alternate Rate (other than Escrow Bonds which shall bear interest at the Bank Bond Interest Rate). During a Short-Term Interest Rate Period, Series D Bonds may bear interest at different Bond Interest Term Rates and have Bond Interest Terms of different durations. At no time will any Series D Bond bear interest in excess of the maximum rate allowed by law (the "Maximum Rate").

For any Daily Interest Rate Period or Weekly Interest Rate Period, interest on the Series D Bonds will be payable on each March 1 and September 1, commencing March 1, 2005, or the next Business Day if such day is not a Business Day. Interest will be paid for the immediately preceding semiannual period beginning on March 1 and ending on August 31, as applicable, or beginning on September 1 and ending on February 28 or 29, as applicable, as the case may be. Interest shall also be payable on the last day of any Daily Interest Rate Period or Weekly Interest Rate Period as applicable. Interest payable on March 1, 2005 will be payable from the Delivery Date. For any Short-Term Interest Rate Period or Long-Term Interest Rate Period, interest will be payable on each Interest Payment Date for the period commencing on and including the immediately preceding Interest Accrual Date and ending on and including the day immediately preceding the Interest Payment Date.

Daily Interest Rate Period. The Daily Interest Rate will be determined by the Remarketing Agent by 9:30 a.m., New York City time, on each Business Day during a Daily Interest Rate Period. The Daily Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable to the Series D Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series D Bonds, would enable the Remarketing Agent to sell the Series D Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Daily Interest Rate for the Series D Bonds for any day during a Daily Interest Rate Period, the interest rate for such day will be the same as the Daily Interest Rate for the immediately preceding Business Day, if the Daily Interest Rate for such preceding Business Day was determined by the Remarketing Agent. If for any reason the Remarketing Agent did not

determine the Daily Interest Rate for the immediately preceding day, or if a Daily Interest Rate determined by the Remarketing Agent for any day is held to be invalid or unenforceable by a court of law, the interest rate for the Series D Bonds for such day will be a rate per annum equal to the BMA Swap Index Rate on the day the Daily Interest Rate would otherwise be determined by the Remarketing Agent.

Weekly Interest Rate Period. The Weekly Interest Rate will be determined by the Remarketing Agent on Wednesday of each week during a Weekly Interest Rate Period or on the next succeeding Business Day if such Wednesday is not a Business Day. The first Weekly Interest Rate determined for each Weekly Interest Rate Period will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Wednesday. Thereafter, each Weekly Interest Rate will apply to the period commencing on Thursday and ending on the next succeeding Wednesday, unless such Weekly Interest Rate Period ends on a day other than Wednesday, in which event the Weekly Interest Rate will apply to the period commencing on the Thursday preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable to the Series D Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series D Bonds, would enable the Remarketing Agent to sell the Series D Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for the Series D Bonds for any week during a Weekly Interest Rate Period, the interest rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week, if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If for any reason the Remarketing Agent did not determine the Weekly Interest Rate for the immediately preceding week, or if a Weekly Interest Rate determined by the Remarketing Agent for any week is held to be invalid or unenforceable by a court of law, the interest rate for the Series D Bonds for such week will be the BMA Swap Index Rate on the day the Weekly Interest Rate would otherwise be determined by the Remarketing Agent.

Short-Term Interest Rate Period. During each Short-Term Interest Rate Period, each Series D Bond will bear interest at the Bond Interest Term Rate determined for the Bond Interest Term applicable to such Series D Bond by the Remarketing Agent no later than the first day of each Bond Interest Term. The Bond Interest Term and the Bond Interest Term Rate need not be the same for any two Series D Bonds, even if determined on the same date. Each Bond Interest Term will be a period ranging from 1 to 180 days as determined by the Remarketing Agent to be the period which, together with all other Bond Interest Terms for all Series D Bonds then outstanding, will result in the lowest overall interest expense on the Series D Bonds for the next succeeding 180 days. In determining the number of days of each Bond Interest Term, the Remarketing Agent will take into account the following factors: (a) existing short-term tax-exempt market rates and indices of such short-term rates, (b) existing market supply and demand for short-term tax-exempt securities, (c) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Series D Bonds, (d) general economic conditions, (e) economic and financial conditions that may affect or be relevant to the Series D Bonds, (f) the Bond Interest Terms of other Series D Bonds and (g) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, determines to be relevant.

The Remarketing Agent will announce, by no later than 9:00 a.m., New York City time, on the first day of each Bond Interest Term, the ranges of possible Bond Interest Terms. The Bond Interest Term and the Bond Interest Term Rate need not be the same for any two of the Series D Bonds, even if determined on the same date.

The Bond Interest Term Rate for each Bond Interest Term for each Series D Bond will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable to the Series D Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under the then-prevailing market conditions) to be the minimum interest rate which, if borne by such Series D Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Series D Bond on the date and at the time of such determination at a price (without regard to accrued interest) equal to the principal amount thereof.

If for any reason a Bond Interest Term for any Series D Bond cannot be determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, such Bond Interest Term will be 30 days, provided that if the last day so determined is not a day immediately preceding a Business Day, such Bond Interest Term will end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding any maturity date of the Series D Bonds, such Bond Interest Term will end on the day immediately preceding the maturity date. If for any reason a Bond Interest Term Rate for any Series D Bond is not so established by the Remarketing Agent for any Bond Interest Term, or such Bond Interest Term Rate is determined by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term shall be the rate per annum equal to seventy percent (70%) of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the first day of such Bond Interest Term with a maturity that most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being so calculated.

Any Series D Bond purchased on behalf of the Department and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Bond Interest Term for that Series D Bond shall have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next Business Day.

At any time during a Short-Term Interest Rate Period, the Department may elect that the Series D Bonds no longer shall bear interest at Bond Interest Term Rates (so long as the Department has delivered a Favorable Opinion of Bond Counsel and evidence that a Liquidity Facility will be in effect after such Interest Rate Period adjustment) and shall instead bear interest at a Weekly Interest Rate, a Long-Term Interest Rate or a Daily Interest Rate as specified in such election.

Long-Term Interest Rate Period. The duration of a Long-Term Interest Rate Period will be determined by the Department, which duration will be at least 181 days. The Long-Term Interest Rate for any Long-Term Interest Rate Period will be determined by the Remarketing Agent on a Business Day no earlier than two weeks before the effective date of such Long-Term Interest Rate Period and no later than the effective date of such Long-Term Interest Rate Period. The Long-Term Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable to the Series D Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series D Bonds, would enable the Remarketing Agent to sell the Series D Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If for any reason the Remarketing Agent does not determine a Long-Term Interest Rate on or prior to the first day of such Long-Term Interest Rate Period, then the Series D Bonds will bear interest at a Weekly Interest Rate, and will continue to bear interest at a Weekly Interest Rate until properly adjusted otherwise as provided in the Thirty-Ninth Supplemental Indenture.

At any time during a Long Term Interest Rate Period, the Department may elect that the Series D Bonds shall no longer bear interest at a Long Term Interest Rate (so long as the Department has delivered a Favorable

Opinion of Bond Counsel and evidence that a Liquidity Facility will be in effect after such Interest Rate Period adjustment) and shall instead bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates or a new Long Term Interest Rate. The Department shall specify the effective date of the new Interest Rate Period, which shall be (i) a Business Day no earlier than the 15th day following the second Business Day after receipt by the Paying Agent of the election by the Department to adjust the Interest Rate Period in the case of an adjustment to a Daily Interest Rate Period or Weekly Interest Rate Period or (ii) a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of the election by the Department to adjust the Interest Rate Period in the case of an adjustment to a new Long Term Interest Rate Period. The Department shall also specify the day on which the Series D Bonds shall be subject to optional redemption as set forth below in "THE SERIES 2004 BONDS - Redemption Provisions - Optional Redemption - Series D Bonds." The Series D Bonds shall be subject to mandatory tender for purchase on the effective date of the new Interest Rate Period at a purchase price equal to the optional redemption price on such date in accordance with the optional redemption provisions set forth below in "THE SERIES 2004 BONDS - Redemption Provisions - Optional Redemption - Series D Bonds."

Owners and prospective purchasers of the Series D Bonds should not rely on this Official Statement with respect to information concerning the Series D Bonds on or after adjustment to a rate period other than the Weekly Interest Rate Period, but should look solely to supplements, revisions or substitutions to this Official Statement for information concerning the Series D Bonds on or after adjustment to a Long-Term Interest Rate Period.

### **Adjustment of Interest Rate Periods**

The Department may elect at any time to adjust the Interest Rate Period on the Series D Bonds from one Interest Rate Period to an alternate Interest Rate Period (or during a Long-Term Interest Rate Period, to establish another Long-Term Interest Rate Period), subject to certain conditions specified in the Thirty-Ninth Supplemental Indenture, including delivery of a Favorable Opinion of Bond Counsel and evidence that a Liquidity Facility will be in effect after adjustment to such Interest Rate Period (other than a Long-Term Interest Rate Period for which the Long-Term Interest Rate is fixed to the maturity date of the Series D Bonds).

If the Department elects to adjust the Series D Bonds to a different Interest Rate Period (including during a Long-Term Interest Rate Period, the establishment of a new Long-Term Interest Rate Period), all of the Series D Bonds will be subject to such different Interest Rate Period. The written direction by which the Department makes such election will specify (a) in the case of an adjustment to a Long-Term Interest Rate Period, the duration of such Long-Term Interest Rate Period; (b) the effective date of the adjustment to a different Interest Rate Period, which effective date will be (i) a Business Day not earlier than the 12th day (15th day in the case of an adjustment to a Daily Interest Rate Period, a Weekly Interest Rate Period or Short-Term Interest Rate Period from a Long-Term Interest Rate Period, and 30th day in the case of an adjustment to a, or the establishment of another, Long-Term Interest Rate Period) following the second Business Day after receipt by the Paying Agent of such direction from the Department, (ii) in the case of an adjustment from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Series D Bonds would otherwise be subject to optional redemption during such Long-Term Interest Rate Period if such adjustment did not occur, (iii) in the case of an adjustment from a Daily Interest Rate Period or a Weekly Interest Rate Period to a Short-Term Interest Rate Period, the day immediately following the last day of such Daily Interest Rate Period or Weekly Interest Rate Period and (iv) in the case of an adjustment from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period; and (c) the date of delivery for the Series D Bonds to be purchased. With respect to any adjustment to a Long-Term Interest Rate Period, such direction of the Department may specify redemption prices greater, and after periods longer, than those set forth in "THE SERIES D BONDS - Redemption Provisions - Optional Redemption - Series D Bonds" below, if approved by a Favorable Opinion



of Bond Counsel. A change to a different Interest Rate Period may not take place unless a Favorable Opinion of Bond Counsel is delivered on the effective date of such change and evidence that a Liquidity Facility is in existence as required by the Thirty-Ninth Supplemental Indenture.

The Paying Agent will give notice by first class mail of any adjustment to a new Interest Rate Period not less than 12 days (15 days if the then-current Interest Rate Period is a Long-Term Interest Rate Period, and 30 days in the case of an adjustment to a, or establishment of another, Long-Term Interest Rate Period) prior to the effective date of such new Interest Rate Period. Such notice will state (a) that the interest rate on the Series D Bonds will be adjusted to a Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates or a Long-Term Interest Rate, or continue to be a Long-Term Interest Rate, as appropriate, unless (i) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date of such adjustment or (ii) in the case of an adjustment to a, or establishment of another, Long-Term Interest Rate Period, the Department elects, on or prior to the date of determination of such Long-Term Interest Rate, to rescind its election to cause such adjustment, in which case the Series D Bonds, if being adjusted from a Daily Interest Rate Period, a Weekly Interest Rate Period or a Short-Term Interest Rate Period, will continue to bear interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates as in effect prior to such proposed adjustment in the Interest Rate Period, or, if being adjusted from a Long-Term Interest Rate Period, will bear interest at a Weekly Interest Rate, for the period commencing on the date which would have been the effective date of such proposed Interest Rate Period; (b) the effective date of such different Interest Rate Period, and in the case of an adjustment to a, or the establishment of another, Long-Term Interest Rate Period, the last day of such Long-Term Interest Rate Period or in the case of an adjustment to a Short-Term Interest Rate Period, that a Bond Interest Term and a Bond Interest Term Rate for each Series D Bond will be determined not later than the first day of such Bond Interest Term; (c) that the Series D Bonds are subject to mandatory tender for purchase on the effective date of the new Interest Rate Period; and (d) the applicable purchase price on such date.

Upon the failure of an adjustment to a different Interest Rate Period, the Series D Bonds will bear interest as provided in clause (a) of the notice described above. If notice of such adjustment has been mailed to the Owners of the Series D Bonds as provided in the Thirty-Ninth Supplemental Indenture and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as therein described, the Series D Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such adjustment.

If the Department determines to adjust the Series D Bonds to a different Interest Rate Period (other than a Long-Term Interest Rate Period for which the Long-Term Interest Rate is fixed to the maturity date of the Series D Bonds), the Department, as a condition to exercising its option to cause such a conversion, must deliver to the Paying Agent evidence that the Liquidity Facility to be in effect after the conversion will satisfy the requirements of the Thirty-Ninth Supplemental Indenture.

### **Establishment of an Alternate Rate**

The Department, with the prior written consent of the Remarketing Agent, the Bond Insurer and the Bank, if any, is authorized to amend or supplement the Thirty-Ninth Supplemental Indenture to provide for (or subsequently modify) an alternate rate determination method, which may include provisions for a dutch auction method of determination, (the "Alternate Rate") for the Series D Bonds. Such amendment shall specify the period and dates for accrual and payment of interest (an "Alternate Rate Period"), the intervals and dates at which the rate will be established and the intervals and procedures by which the Series D Bonds may be optionally or mandatorily tendered and the redemption provisions for Series D Bonds in an Alternate Rate Period. These changes will be noted on the Series D Bonds or an amended Series D Bond form will be provided for in the amendment in order to reflect them. The election to change the interest rate determination method is to be made by the Department, with the prior written consent of the Remarketing Agent, the Bond

Insurer and the Bank, if any, in the manner prescribed by the amendment or supplement to the Thirty-Ninth Supplemental Indenture.

A change to an Alternate Rate Period from another Interest Rate Period shall cause a mandatory purchase of the Series D Bonds. The requirements of the Thirty-Ninth Supplemental Indenture regarding notice, receipt of the prior written consent of the Remarketing Agent, the Bond Insurer and the Bank, if any, and a Favorable Opinion of Bond Counsel shall apply to any such change. The effective date of a change to an Alternate Rate Period shall be (1) a Business Day not earlier than the 12th day (15th day if the then current Interest Rate Period for the Series D Bonds shall be a Long-Term Interest Rate Period) following the second Business Day after receipt by the Paying Agent of an election by the Department to change to an Alternate Rate Period, (2) in the case of an adjustment from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Series D Bonds would otherwise be subject to optional redemption as set forth below in "THE SERIES D BONDS - Redemption Provisions -- Optional Redemption - Series D Bonds" if such adjustment did not occur and (3) in the case of an adjustment from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period. If a change to an Alternate Rate Period would take effect after a Bond Interest Term, then for any Series D Bonds having Bond Interest Terms which end before the effective date of the Alternate Rate, the Remarketing Agent shall determine the Bond Interest Terms that will best promote an orderly transition to the Alternate Rate Period such that the day next succeeding the last day of all Bond Interest Terms with respect to such Series D Bonds shall be the effective date of the Alternate Rate Period.

Each Alternate Rate is to be set at the minimum rate that the Remarketing Agent determines, in its sole discretion based on market conditions, would be necessary to sell all the Series D Bonds on the day the rate is set at a price (without regarding accrued interest) equal to the principal amount thereof.

The amendment to the Thirty-Ninth Supplemental Indenture shall establish an index and/or method by which the rate will be set, to be used if the Remarketing Agent does not set an Alternate Rate for an Alternate Rate Period or a court holds that the rate set for the Alternate Rate Period is invalid or unenforceable.

### **Tender Provisions**

THE THIRTY-NINTH SUPPLEMENTAL INDENTURE PROVIDES THAT SO LONG AS CEDE & CO. IS THE SOLE REGISTERED OWNER OF THE SERIES D BONDS, ALL TENDERS FOR PURCHASE AND DELIVERIES OF SERIES D BONDS TENDERED FOR PURCHASE OR SUBJECT TO MANDATORY TENDER UNDER THE PROVISIONS OF THE THIRTY-NINTH SUPPLEMENTAL INDENTURE SHALL BE MADE PURSUANT TO DTC'S PROCEDURES AS IN EFFECT FROM TIME TO TIME, AND NEITHER THE DEPARTMENT, THE TRUSTEE, THE PAYING AGENT, THE TENDER AGENT NOR THE REMARKETING AGENT SHALL HAVE ANY RESPONSIBILITY FOR OR LIABILITY WITH RESPECT TO THE IMPLEMENTATION OF SUCH PROCEDURES.

Tender for Purchase Upon Election of Owner During Daily Interest Rate Period. During any Daily Interest Rate Period, any Series D Bond (other than Escrow Bonds) will be purchased in whole (or in part if both the amount to be purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Holder thereof at the option of such Holder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, payable in immediately available funds, upon delivery by such Holder to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 11:00 a.m., New York City time, on such Business Day of an irrevocable written notice which states the principal amount of such Series D Bond and the date on which such Series D Bond is to be purchased, which date will be the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any

notice delivered to the Tender Agent or the Remarketing Agent after 11:00 a.m., New York City time, will be deemed to have been received on the next succeeding Business Day.

Tender for Purchase Upon Election of Owner During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Series D Bond (other than Escrow Bonds) will be purchased in whole (or in part if both the amount purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, payable in immediately available funds, upon delivery by such Owner to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 4:00 p.m., New York City time, on such Business Day of an irrevocable written notice which states the principal amount of such Series D Bond and the date on which such Series D Bond is to be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any notice delivered to the Tender Agent or the Remarketing Agent after 4:00 p.m., New York City time, will be deemed to have been received on the next succeeding Business Day.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term. On the day next succeeding the last day of each Bond Interest Term (unless such day is the first day of a new Interest Rate Period in which case the Series D Bonds will be subject to mandatory tender for purchase as provided in the next paragraph), the Owner of a Series D Bond shall tender for purchase such Series D Bond and such Series D Bond will be purchased at a purchase price equal to the principal amount thereof payable in immediately available funds. The purchase price of any Series D Bond so purchased shall be payable only upon surrender of such Series D Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Series D Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period (other than the initial Interest Rate Period), or on the day which would have been the first day of an Interest Rate Period had there been no occurrence of an event which resulted in the interest rate on the Series D Bonds not being adjusted, at a purchase price payable in immediately available funds, equal to the principal amount of the Series D Bonds.

Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility. Prior to the date when the interest rate on the Series D Bonds is established at a Long-Term Interest Rate fixed to the maturity thereof, if at any time the Paying Agent gives notice in accordance with the Thirty-Ninth Supplemental Indenture that the Series D Bonds will, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility (other than because of an Immediate Termination Event), the Series D Bonds will be subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase:

(a) on a Business Day which is at least five days prior to the date on which the Liquidity Facility is to be cancelled by the Department in connection with its replacement by a Substitute Liquidity Facility; or

(b) on a Business Day which is at least five days prior to (i) a cancellation of the Liquidity Facility by the Department, (ii) a termination by the Bank of the Liquidity Facility upon the occurrence of a default under the Liquidity Facility, written notice of which has been delivered by the Bank to the Department, the Trustee, the Remarketing Agent, the Tender Agent, the Bond Insurer and

the Paying Agent, or (iii) an expiration of the Liquidity Facility, except in the case of an Immediate Termination Event.

Notwithstanding the foregoing, in the event that in connection with any such cancellation, termination or expiration of an existing Liquidity Facility and substitution thereof with a Substitute Liquidity Facility, the Department delivers to the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agent, prior to the date that notice of such cancellation, termination or expiration and substitution is given by the Paying Agent, written evidence from each Rating Agency then rating the Series D Bonds to the effect that such cancellation, termination or expiration and substitution in and of itself will not result in the withdrawal or reduction of any rating then applicable to the Series D Bonds, then the Series D Bonds will not be subject to mandatory tender for purchase as provided above solely as a result of such cancellation, termination or expiration and substitution.

Mandatory Tender for Purchase at Election of the Department During Long-Term Interest Rate Period. The Series D Bonds are subject to mandatory tender for purchase during any Long-Term Interest Rate Period (other than a Long-Term Interest Rate Period ending on the stated maturity date of the Series D Bonds) on any date during the period in which such Series D Bonds could be optionally redeemed, as designated by the Department, at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase.

Irrevocable Notice Deemed to be Tender of Series D Bonds. The giving of notice by an Owner of the election to have any Series D Bond purchased during a Daily Interest Rate Period or a Weekly Interest Rate Period will constitute the irrevocable tender for purchase of such Series D Bond regardless of whether such Series D Bond is delivered to the Tender Agent for purchase on the relevant purchase date.

Undelivered Bonds. If funds in the amount of the purchase price of any Series D Bond which has not been delivered to the Tender Agent, in the case of a Series D Bond purchased at the option of the Owner on the date specified for the purchase thereof or, in the case of a Series D Bond subject to mandatory tender for purchase, on the date specified in the Thirty-Ninth Supplemental Indenture, are available for payment to the Owner of such Series D Bond on such date, from and after the date and time of that required delivery (a) such Series D Bond will be deemed to be purchased and will no longer be deemed to be outstanding under the Thirty-Ninth Supplemental Indenture; (b) interest will no longer accrue on such Series D Bond; and (c) funds in the amount of the purchase price of such Series D Bond will be held by the Tender Agent for the benefit of the Owner thereof (provided that such Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Series D Bond to the Tender Agent at its Principal Office for delivery of Series D Bonds.

Delivery Address For Tender Notices and Tendered Bonds. Notices in respect of tenders for purchase at the election of Owners during a Daily Interest Rate Period or a Weekly Interest Rate Period and Series D Bonds subject to mandatory purchase as described above must be delivered to the Tender Agent. The initial address of the Tender Agent to which such notices and Series D Bonds should be delivered is J.P. Morgan Trust Company, National Association, 201 Main Street, Suite 300, Fort Worth, Texas 76102.

Payment of Purchase Price. For payment of the purchase price of any Series D Bond required to be purchased pursuant to the Thirty-Ninth Supplemental Indenture, such Series D Bond must be delivered at or prior to 12:00 noon, New York City time, on the date specified in the notice relating to such purchase, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature verified by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program. In the event any such Series D Bond is delivered after 12:00 noon, New York City time,

on such specified date, payment of the purchase price need not be made until the Business Day following the date of delivery of such Series D Bond, but such Series D Bond will nonetheless be deemed to have been purchased on the date specified in such notice, and no interest will accrue thereon after such date.

Immediate Termination Event or Suspension Event. The Series D Bonds shall not be subject to mandatory tender as a result of the occurrence of an Immediate Termination Event or a Suspension Event. If the Paying Agent shall receive notice of the occurrence of an Immediate Termination Event or a Suspension Event, within one Business Day following its receipt of such notice, it shall notify the Owners of Series D Bonds and the Bond Insurer that an Immediate Termination Event or a Suspension Event, as applicable, has occurred. See "THE LIQUIDITY FACILITY AND THE BANK."

Insufficient Funds for Purchase of Series D Bonds. If payment of the purchase price of any Series D Bond shall not be made to the Owner thereof on any purchase date (a "Failed Purchase Date"), such Series D Bond shall be returned by the Tender Agent to the Owner thereof. Thereafter, commencing on the Failed Purchase Date and ending on the date that the Department in its discretion purchases or causes the purchase of all Series D Bonds, the Series D Bonds shall bear interest at a variable rate per annum equal to the BMA Swap Index plus one percent (1%). In the event that the Department purchases or causes the purchase of the Series D Bonds and a Liquidity Facility is in effect, such Series D Bonds shall thereafter bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, or a Long-Term Interest Rate as determined by the Department.

## **Redemption Provisions**

As described under "INTRODUCTION," the Series 2004 Bonds are being issued in conjunction with the Series F Bonds, the terms of which are described in a separate Preliminary Official Statement.

The Series 2004 Bonds are subject to optional redemption, special redemption, and mandatory sinking fund redemption at various times prior to their scheduled maturities at various redemption prices as described below. **The Department anticipates that substantially all of the Series 2004 Bonds will be redeemed prior to their scheduled maturities as the result of the receipt by the Department of amounts representing Mortgage Loan Principal Prepayments, from certain excess Revenues from the Revenue Fund, and, in certain circumstances, from Surplus Indenture Revenues.**

### ***Special Redemption from Unexpended Proceeds***

The Series 2004 Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities, in whole or in part, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to one hundred percent (100%) of the principal amount thereof (provided that any redemption of Series C Bonds issued in the aggregate principal amount of \$17,000,000 maturing on March 1, 2035 (the "Premium PAC Term Bonds") pursuant to this provision shall be at a Redemption Price equal to 105.310% of the principal amount thereof) plus accrued interest thereon to, but not including, the date of redemption, from amounts representing lendable proceeds of the Series 2004 Bonds, if any, that are not to be used to purchase 2004 Mortgage Certificates and are transferred to the 2004 C/D/E Redemption Subaccount. Such redemption shall occur as soon as practicable after receipt of the certification of the Department that such amounts will not be used to purchase 2004 Mortgage Certificates. The Department is not required to transfer unexpended proceeds to the 2004 C/D/E Redemption Subaccount unless such proceeds exceed \$250,000. The Series 2004 Bonds to be redeemed in accordance with this provision shall be selected pro rata by the Trustee unless otherwise directed pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues; provided that the Premium PAC Term Bonds must be selected pro rata (as described herein under "SECURITY FOR THE BONDS -- Statement of Projected Revenues").

***Special Redemption From Mortgage Loan Principal Prepayments***

The Series 2004 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time on or after March 1, 2005, after giving notice as provided in the Trust Indenture, at a redemption price equal to one hundred percent (100%) of the principal amount of the Series 2004 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts representing Mortgage Loan Principal Prepayments in the case of the Series 2004 Bonds, to the 2004 C/D/E Redemption Subaccount, all in accordance with the Trust Indenture.

Mortgage Loan Principal Prepayments Relating to 2004 Mortgage Certificates. In the event of a redemption pursuant to this provision from Mortgage Loan Principal Prepayments relating to the 2004 Mortgage Certificates, the Trustee shall select the particular Series 2004 Bonds to be redeemed as follows:

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

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

<u>Date</u>	<u>Premium PAC Term Bonds Outstanding Applicable Amount</u>
October 28, 2004	\$17,000,000
March 1, 2005	17,000,000
September 1, 2005	16,190,000
March 1, 2006	15,370,000
September 1, 2006	14,290,000
March 1, 2007	12,690,000
September 1, 2007	10,840,000
March 1, 2008	8,775,000
September 1, 2008	6,660,000
March 1, 2009	4,630,000
September 1, 2009	2,720,000
March 1, 2010	915,000
September 1, 2010	-0-

(b) amounts remaining following the redemptions specified in clause (a) above shall be applied to the redemption of the Series D Bonds, but only to the extent that the Outstanding principal amount of such Series D Bonds following such redemption is not less than the Series D Bonds Outstanding Applicable Amount as of such date;

*[The remainder of this page is intentionally left blank.]*

The Series D Bonds Outstanding Applicable Amount is as follows:

<u>Date</u>	<u>Series D Outstanding Applicable Amount</u>	<u>Date</u>	<u>Series D Outstanding Applicable Amount</u>
October 28, 2004	35,000,000	March 1, 2020	27,285,000
March 1, 2005	35,000,000	September 1, 2020	26,525,000
September 1, 2005	35,000,000	March 1, 2021	25,745,000
March 1, 2006	35,000,000	September 1, 2021	24,940,000
September 1, 2006	35,000,000	March 1, 2022	24,115,000
March 1, 2007	35,000,000	September 1, 2022	23,240,000
September 1, 2007	35,000,000	March 1, 2023	21,850,000
March 1, 2008	35,000,000	September 1, 2023	20,480,000
September 1, 2008	35,000,000	March 1, 2024	19,135,000
March 1, 2009	35,000,000	September 1, 2024	17,845,000
September 1, 2009	35,000,000	March 1, 2025	16,745,000
March 1, 2010	35,000,000	September 1, 2025	15,705,000
September 1, 2010	35,000,000	March 1, 2026	14,705,000
March 1, 2011	35,000,000	September 1, 2026	13,725,000
September 1, 2011	35,000,000	March 1, 2027	12,770,000
March 1, 2012	35,000,000	September 1, 2027	11,835,000
September 1, 2012	35,000,000	March 1, 2028	10,910,000
March 1, 2013	35,000,000	September 1, 2028	10,010,000
September 1, 2013	35,000,000	March 1, 2029	9,125,000
March 1, 2014	35,000,000	September 1, 2029	8,260,000
September 1, 2014	34,445,000	March 1, 2030	7,410,000
March 1, 2015	33,875,000	September 1, 2030	6,580,000
September 1, 2015	33,290,000	March 1, 2031	5,770,000
March 1, 2016	32,690,000	September 1, 2031	4,975,000
September 1, 2016	32,075,000	March 1, 2032	4,200,000
March 1, 2017	31,445,000	September 1, 2032	3,440,000
September 1, 2017	30,795,000	March 1, 2033	2,700,000
March 1, 2018	30,130,000	September 1, 2033	1,980,000
September 1, 2018	29,445,000	March 1, 2034	1,280,000
March 1, 2019	28,745,000	September 1, 2034	615,000
September 1, 2019	28,025,000	March 1, 2035	-0-

(c) amounts remaining following the redemptions specified in clauses (a) and (b) above shall be applied, unless otherwise directed by a Letter of Instructions accompanied by a Statement of Projected Revenues, to the redemption of the Series C Bonds (excluding the Premium PAC Term Bonds) and the Series E Bonds which would produce, as nearly as practicable, a pro rata redemption of such Series C Bonds and the Series E Bonds;

(d) if, following the redemptions specified in clauses (a), (b) and (c) above, only Premium PAC Term Bonds and Series D Bonds remain Outstanding, then the amounts remaining following such redemptions shall be used to redeem the Premium PAC Term Bonds; and

(e) if, following the redemptions specified in clauses (a), (b), (c) and (d) above, no Series 2004 Bonds other than the Series D Bonds remain Outstanding, then the amounts remaining following such redemption shall be applied as directed by a Letter of Instructions accompanied by a Statement

of Projected Revenues unless redemption of the Series D Bonds is necessary to preserve the exclusion of interest on the Series D Bonds from gross income for the purposes of federal income taxation.

Any special redemption of the Series 2004 Bonds will reduce the Premium PAC Term Bonds Outstanding Applicable Amount and/or the Series D Outstanding Applicable Amount described above for the current and each future semiannual period by an amount equal to the product of the amount shown in such Outstanding Applicable Amount table and a fraction, the numerator of which is equal to the aggregate principal amount of such Premium PAC Term Bonds or Series D Bonds Outstanding prior to such redemption less the aggregate principal amount of such Premium PAC Term Bonds or Series D Bonds, respectively, to be redeemed and the denominator of which is equal to the aggregate principal amount of Premium PAC Term Bonds or Series D Bonds Outstanding, respectively, prior to such redemption.

### ***Redemption Amounts and Prepayment Standard***

The amounts shown in the table above for Premium PAC Term Bonds Outstanding Applicable Amount are based on the assumptions of (i) receipt of prepayments on the 2004 Mortgage Loans equal to 75 percent of the Bond Market Association's (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans (as further described below) (the "BMA Prepayment Model") and receipt of prepayments on the mortgage loans relating to the Series 1993 Bonds equal to 200 percent; and (ii) that 100 percent of the moneys on deposit in the 2004 C/D/E Mortgage Loan Account attributable to the proceeds of the Series 2004 Bonds, will be used to purchase 2004 Mortgage Certificates. Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The BMA Prepayment Model for 30-year mortgage bonds represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. The BMA Prepayment Model does not purport to be either an historical description of the prepayment of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the 2004 Mortgage Certificates. One hundred percent of the BMA Prepayment Model assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30<sup>th</sup> month. Beginning in the 30<sup>th</sup> month and in each month thereafter during the life of the mortgage loans, 100 percent of the BMA Prepayment Model assumes a constant prepayment rate of six percent per year. Multiples will be calculated from this prepayment rate speed, e.g., 200 percent of the BMA Prepayment Model assumes prepayment rates will be 0.4 percent per year on month one, 0.8 percent per year in month two, reaching 12 percent per year in month 30 and remaining constant at 12 percent per year thereafter.

### ***Special Redemption From Excess Revenues***

The Series 2004 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time on or after March 1, 2005, after giving notice as provided in the Trust Indenture, at a redemption price equal to one hundred percent (100%) of the principal amount of the Series 2004 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from excess Revenues (including Surplus Indenture Revenues whether or not derived in connection with the Series 2004 Bonds).

In general, excess Revenues (including Surplus Indenture Revenues derived in connection with the Series 2004 Bonds) will consist of funds remaining on each Interest Payment Date, in the case of the Series 2004 Bonds, in the 2004 C/D/E Revenue Account of the Revenue Fund after taking into account (1) the provision for payment of Debt Service, including Swap Agreement Periodic Payments, on the applicable Series 2004 Bonds on such Interest Payment Date, (2) the required transfers of amounts to the 2004 C/D/E Subaccount of the Redemption Account, (3) the amounts, if any, required to fund the Debt Service Reserve



Account on such Interest Payment Date, and (4) the payment of Department Expenses in accordance with the Trust Indenture.

In the event of a redemption of Series 2004 Bonds from excess Revenues, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues, the Trustee shall redeem all Series 2004 Bonds Outstanding on a pro rata basis (provided however that the Premium PAC Term Bonds shall not be redeemed in an amount that would cause the Outstanding amount of the Premium PAC Term Bonds to be less than Premium PAC Term Bonds Outstanding Applicable Amount and the Series D Bonds shall be not redeemed in an amount that would cause the Outstanding amount of the Series D Bonds to be less than the Series D Outstanding Applicable Amount unless redemption of the Premium PAC Term Bonds or the Series D Bonds is necessary to preserve the exclusion of interest on the Series 2004 Bonds from gross income for the purposes of federal income taxation).

### ***Optional Redemption***

#### **Series C/E Bonds**

The Series C/E Bonds are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after September 1, 2014, at the option of the Department, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to the principal amount of Series C/E Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date.

#### **Series D Bonds**

The Series D Bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows:

(a) During a Daily Interest Rate Period or a Weekly Interest Rate Period for the Series D Bonds, the Series D Bonds shall be subject to optional redemption by the Department, in whole or in part on any Business Day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.

(b) On the day succeeding the last day of any Bond Interest Term with respect to any Series D Bond bearing interest at Bond Interest Term Rates, such Series D Bond shall be subject to optional redemption by the Department, in whole or in part, at a redemption price equal to 100% of the principal amount thereof to be redeemed.

(c) During any Long-Term Interest Rate Period for the Series D Bonds, the Series D Bonds shall be subject to optional redemption by the Department, in whole or in part on any date, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest, if any, to the redemption date (i) on the first day of such Long-Term Interest Rate Period and (ii) during the period set forth below opposite the applicable length of such Long-Term Interest Rate Period:

Length of Long-Term Interest Rate Period (expressed in years)	Redemption Period
Greater than 15	on or after the 10 <sup>th</sup> anniversary of the first day of such Long-Term Interest Rate Period
less than or equal to 15 and greater than 10	on or after the 7 <sup>th</sup> anniversary of the first day of such Long-Term Interest Rate Period
less than or equal to 10 and greater than 7	on or after the 5 <sup>th</sup> anniversary of the first day of such Long-Term Interest Rate Period
less than or equal to 7 and greater than 4	on or after the 3 <sup>rd</sup> anniversary of the first day of such Long-Term Interest Rate Period
less than or equal to 4	on or after the 2 <sup>nd</sup> anniversary of the first day of such Long-Term Interest Rate Period

***Mandatory Sinking Fund Redemption***

The Series 2004 Bonds maturing on the dates specified below are subject to scheduled mandatory redemption prior to maturity, after giving notice as provided in the Trust Indenture, in the principal amounts and on the dates set forth in the following tables, at a redemption price equal to one hundred percent (100%) of the principal amount of Series 2004 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

**SERIES C BONDS**

Series C Term Bond Maturing March 1, 2019

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
September 1, 2014	\$310,000	March 1, 2017	\$355,000
March 1, 2015	320,000	September 1, 2017	365,000
September 1, 2015	330,000	March 1, 2018	375,000
March 1, 2016	335,000	September 1, 2018	385,000
September 1, 2016	345,000	March 1, 2019	395,000

Series C Term Bond Maturing September 1, 2024

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
September 1, 2019	\$490,000	September 1, 2022	\$575,000
March 1, 2020	500,000	March 1, 2023	585,000
September 1, 2020	515,000	September 1, 2023	605,000
March 1, 2021	530,000	March 1, 2024	620,000
September 1, 2021	540,000	September 1, 2024	625,000
March 1, 2022	555,000		

Series C Term Bond Maturing September 1, 2030

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
March 1, 2025	\$510,000	March 1, 2028	\$555,000
September 1, 2025	505,000	September 1, 2028	570,000
March 1, 2026	495,000	March 1, 2029	585,000
September 1, 2026	510,000	September 1, 2029	605,000
March 1, 2027	525,000	March 1, 2030	620,000
September 1, 2027	540,000	September 1, 2030	635,000

Premium PAC Term Series C Bond Maturing March 1, 2035

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
March 1, 2007	\$280,000	September 1, 2021	\$280,000
September 1, 2007	280,000	March 1, 2022	290,000
March 1, 2008	290,000	September 1, 2022	295,000
September 1, 2008	295,000	March 1, 2023	305,000
March 1, 2009	300,000	September 1, 2023	310,000
September 1, 2009	305,000	March 1, 2024	320,000
March 1, 2010	310,000	September 1, 2024	320,000
September 1, 2010	315,000	March 1, 2025	265,000
March 1, 2011	325,000	September 1, 2025	260,000
September 1, 2011	330,000	March 1, 2026	255,000
March 1, 2012	340,000	September 1, 2026	265,000
September 1, 2012	345,000	March 1, 2027	270,000
March 1, 2013	355,000	September 1, 2027	280,000
September 1, 2013	365,000	March 1, 2028	285,000
March 1, 2014	375,000	September 1, 2028	295,000
September 1, 2014	190,000	March 1, 2029	305,000
March 1, 2015	195,000	September 1, 2029	310,000
September 1, 2015	205,000	March 1, 2030	320,000
March 1, 2016	210,000	September 1, 2030	330,000
September 1, 2016	215,000	March 1, 2031	340,000
March 1, 2017	220,000	September 1, 2031	345,000
September 1, 2017	225,000	March 1, 2032	355,000
March 1, 2018	230,000	September 1, 2032	370,000
September 1, 2018	240,000	March 1, 2033	380,000
March 1, 2019	245,000	September 1, 2033	390,000
September 1, 2019	250,000	March 1, 2034	400,000
March 1, 2020	255,000	September 1, 2034	415,000
September 1, 2020	265,000	March 1, 2035	420,000
March 1, 2021	270,000		

Series C Term Bond Maturing March 1, 2036

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
March 1, 2031	\$655,000	March 1, 2034	\$775,000
September 1, 2031	675,000	September 1, 2034	800,000
March 1, 2032	695,000	March 1, 2035	825,000
September 1, 2032	715,000	September 1, 2035	775,000
March 1, 2033	735,000	March 1, 2036	530,000
September 1, 2033	755,000		

**SERIES D BONDS**

Series D Variable Rate Demand Bonds Maturing March 1, 2035

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
September 1, 2014	\$555,000	March 1, 2025	\$ 760,000
March 1, 2015	570,000	September 1, 2025	745,000
September 1, 2015	585,000	March 1, 2026	735,000
March 1, 2016	600,000	September 1, 2026	755,000
September 1, 2016	615,000	March 1, 2027	775,000
March 1, 2017	630,000	September 1, 2027	800,000
September 1, 2017	650,000	March 1, 2028	825,000
March 1, 2018	665,000	September 1, 2028	845,000
September 1, 2018	685,000	March 1, 2029	870,000
March 1, 2019	700,000	September 1, 2029	895,000
September 1, 2019	720,000	March 1, 2030	920,000
March 1, 2020	740,000	September 1, 2030	945,000
September 1, 2020	760,000	March 1, 2031	970,000
March 1, 2021	780,000	September 1, 2031	1,000,000
September 1, 2021	805,000	March 1, 2032	1,030,000
March 1, 2022	825,000	September 1, 2032	1,055,000
September 1, 2022	845,000	March 1, 2033	1,085,000
March 1, 2023	870,000	September 1, 2033	1,115,000
September 1, 2023	895,000	March 1, 2034	1,150,000
March 1, 2024	920,000	September 1, 2034	1,175,000
September 1, 2024	920,000	March 1, 2035	1,215,000

**SERIES E BONDS**

Series E Term Bond Maturing March 1, 2019

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
March 1, 2014	\$720,000	March 1, 2017	\$75,000
September 1, 2014	65,000	September 1, 2017	75,000
March 1, 2015	65,000	March 1, 2018	75,000
September 1, 2015	65,000	September 1, 2018	80,000
March 1, 2016	70,000	March 1, 2019	75,000
September 1, 2016	70,000		

The principal amount of the Series 2004 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 2004 Bonds of the same series and having the same stated maturity, which (A) at least 45 days prior to mandatory sinking fund redemption date, (1) shall have been acquired by the Department and delivered to the Trustee for cancellation, or (2) shall have been acquired and canceled by the Trustee at the direction of the Department, or (3) shall have been redeemed other than pursuant to mandatory sinking fund redemption, and (B) shall have not been previously credited against a scheduled mandatory sinking fund redemption.

### **Selection of Series 2004 Bonds to be Redeemed**

Subject to the requirements set forth above regarding special redemption of the Series 2004 Bonds, the particular Series 2004 Bonds or portions thereof to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its sole discretion may deem fair and appropriate. Any Series 2004 Bonds redeemed in part shall be redeemed in an amount such that the unredeemed portion thereof shall equal an Authorized Denomination, and, in selecting Series 2004 Bonds for redemption, the Trustee shall treat each Series 2004 Bond in a denomination greater than the minimum Authorized Denomination as representing that number of Series 2004 Bonds of the minimum Authorized Denomination which is obtained by dividing the principal amount at maturity of such Series 2004 Bonds by the minimum Authorized Denomination.

### **Notice of Redemption**

The Trustee shall give notice, in the name of the Department, of the redemption of Series 2004 Bonds to the holders thereof, which notice shall specify the series and maturities of the Series 2004 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2004 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2004 Bonds so to be redeemed, and, in the case of Series 2004 Bonds to be redeemed in part only, such notices shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2004 Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof, in the case of Series 2004 Bonds to be redeemed in part only, together with interest accrued to but not including the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice by first class mail, postage prepaid, not less than 30 days prior to the redemption date, to the holders of any Series 2004 Bonds or portions thereof which are to be redeemed, at their last addresses, if any, appearing upon the registry books of the Trustee. The Trustee's obligation to give such notice shall not be conditioned upon the prior payment to the Trustee of funds sufficient to pay the Redemption Price on the Series 2004 Bonds to which such notice relates or interest thereon to the redemption date.

### **Payment of Redeemed Bonds**

Notice having been given as provided in the Trust Indenture, the Series 2004 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. Upon presentation and surrender thereof at the office specified in such notice, such Series 2004 Bonds or portions thereof shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Series 2004 Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 2004 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 2004 Bond so surrendered, registered Series 2004 Bonds of like series and maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of

all the Series 2004 Bonds or portions thereof of any like series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as specified in the Trust Indenture, then from and after the redemption date interest on the Series 2004 Bonds or portions thereof of such series and maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 2004 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

### **Purchase in Lieu of Redemption**

The Trust Indenture permits the purchase of Bonds, including the Series 2004 Bonds, in the open market in lieu of redemption of Bonds. Any such purchase may be at a price not exceeding the then current redemption price for such Bonds.

### **DTC and Book-Entry**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2004 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' Records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the

Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2004 Bonds may wish to ascertain that the nominee holding the Series 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2004 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2004 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2004 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

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

FOR AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2004 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 2004 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS, EXCEPT AS DESCRIBED HEREIN.

NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSON FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 2004 BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2004 BONDS FOR REDEMPTION.

#### **Discontinuation of Book-Entry-Only System**

In the event that the book-entry-only system is discontinued by DTC or the Department, the following provisions will be applicable to the Series 2004 Bonds. Series 2004 Bonds may be exchanged for an equal aggregate principal amount of Series 2004 Bonds in other Authorized Denominations of the same series and maturity and interest rate upon surrender thereof at the applicable corporate trust office of the Trustee with a duly executed assignment in form satisfactory to the Trustee. The transfer of any Series 2004 Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2004 Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2004 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 2004 Bond for a period of 20 days next preceding an interest payment date on such Series 2004 Bonds or next preceding any selection of Series 2004 Bonds to be redeemed or thereafter until after mailing of any notice of redemption on any Series 2004 Bonds called for redemption, or transfer or exchange any Series 2004 Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 2004 Bond is registered as the absolute owner thereof for all purposes, whether such Series 2004 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 2004 Bond. If any Series 2004 Bond is not presented for payment when the principal or the Redemption Price therefor becomes due, and if moneys sufficient to pay such Series 2004 Bond (or the portion thereof called for redemption) or such interest, as is applicable, have been deposited under the Trust Indenture, all liability of the Department to the owner thereof for the payment of such Series 2004 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 2004 Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Trust Indenture or on or with respect to, such principal, Redemption Price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), in accordance with Title 6, Texas Property Code.



## THE LIQUIDITY FACILITY AND THE BANK

*There follows under this caption certain information concerning the Liquidity Facility and the Bank, DEPFA BANK plc, acting through its New York Branch ("DEPFA" or the "Bank"). No representation is made by the Department, the Underwriters or any of their counsel as to the accuracy, completeness or adequacy of such information, or as to the absence of any materially adverse changes in such information subsequent to the date hereof. Neither the Department, the Underwriters nor any of their counsel have made any independent investigation of DEPFA or the Liquidity Facility.*

### **The Liquidity Facility**

The Department will cause to be executed and delivered to the Trustee, simultaneously with the issuance of the Series D Bonds, the Liquidity Facility, by and among the Department, the Tender Agent and the Bank, providing for the purchase, in accordance with the terms thereof, of each Series D Bond, which is in a Daily Rate Period or a Weekly Rate Period and is tendered for purchase, as provided in the Indenture, and not remarketed; provided, however, that Series D Bonds owned by the Department or any Affiliate (as defined in the Liquidity Facility) of the Department are not eligible for purchase. The Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined in this Official Statement, the Liquidity Facility or the Indenture, and reference thereto is made for full understanding of their import. *Unless otherwise noted below, (i) this summary of terms and provisions is applicable to the Liquidity Facility described in this Official Statement and (ii) the Liquidity Facility supports only the Series D Bonds described therein and is not available for the Series C/E Bonds.*

**General.** The purchase price of each Series D Bond tendered for purchase is payable from the proceeds of the remarketing of such Series D Bond and, to the extent remarketing proceeds are insufficient or not available therefor, from amounts available under the Liquidity Facility. The Liquidity Facility requires the Bank to provide funds for the purchase of Series D Bonds which are "Eligible Bonds" (as defined in the Liquidity Facility), subject to certain conditions described below. Series D Bonds to be purchased and held by the Bank will bear interest at the Bank Rate in accordance with (and as defined in) the Liquidity Facility.

The amount of the Liquidity Facility at any one time is determined by adding the Available Principal Commitment and the Available Interest Commitment therefor. The Available Principal Commitment is equal to the initial principal amount of the related Series D Bonds adjusted as follows: (a) downward by the amount of any mandatory reduction of such amount pursuant to the Liquidity Facility, (b) downward by the principal amount of Series D Bonds purchased by the Bank pursuant to the related Liquidity Facility and (c) upward by the principal amount of Series D Bonds that were purchased by the Bank and subsequently remarketed by the Remarketing Agent or retained by the Bank in lieu of sale pursuant to a remarketing. The Available Interest Commitment is equal to 189 days interest with respect to the initial amount of the Available Principal Commitment based on an assumed rate of 12% per annum and a 365-day year for the actual number of days elapsed. The Available Interest Commitment will, from time to time, be reduced commensurate with any reduction to the Available Principal Commitment as described in clause (a) or (b) of this paragraph and increased commensurate with any increase in the Available Principal Commitment as described in clause (c) of this paragraph.

The Liquidity Facility will be effective on the date of delivery of the Series D Bonds (the "Effective Date") and shall be effective from the Effective Date until the earliest of (i) October 26, 2007, or to an extended date as may become effective under the Liquidity Facility (the "Expiration Date"), (ii) the date on which no Series D Bonds are Outstanding, (iii) the close of business on the Conversion Date (as defined in the Liquidity

Facility), (iv) the date on which the Bank terminates its obligations to purchase Series D Bonds pursuant to the Liquidity Facility, (v) the first date on which the Bonds are paid in full, or (vi) the date on which the Available Commitment (as defined in the Liquidity Facility) has been reduced to zero or terminated in its entirety pursuant to the Liquidity Facility.

On each date on which Series D Bonds are to be purchased by the Bank pursuant to an optional tender or mandatory tender for purchase, by no later than 10:30 a.m., New York time, the Tender Agent will give notice to the Bank of the Series D Bonds required to be purchased and the amount of principal and interest, respectively, required for such purchase, as set forth in the Liquidity Facility. Upon receipt of such notice, the Bank, subject to satisfaction of the conditions precedent to purchase as set forth in the Liquidity Facility, shall, by no later than 1:30 p.m., New York time, transfer to the Tender Agent, in immediately available funds, an amount equal to the purchase price of all Series D Bonds required to be purchased by the Bank.

The obligations of the Bank to purchase Series D Bonds pursuant to the Liquidity Facility is subject to the condition precedent that no Insurer Event of Default or Suspension Event shall have occurred. An "Insurer Event of Default" is any event specified in paragraph (a), (e), (f), (g) or (h)(i) under "Events of Default" below. A "Suspension Event" is the suspension of the obligation to purchase Series D Bonds by reasons of the remedies set forth in paragraph (2) under "Remedies Upon an Event of Default" below.

**Events of Default.** As described below, the Liquidity Facility provides that the obligation of the Bank to purchase Series D Bonds tendered by Bondholders or subject to mandatory tender may be terminated or suspended upon the occurrence of certain events. If a Liquidity Facility is terminated, sufficient funds may not be available to purchase Series D Bonds tendered by the Bondholders thereof. The following events are the Events of Default under the Liquidity Facility:

(a) Any principal or interest due on the Series D Bonds (including Bank Bonds, as defined in the Liquidity Facility) is not paid when due by FSA when, as, and in the amounts required to be paid pursuant to the terms of the Policy; or

(b) The Department shall fail to pay when due any amount owing under specified sections of the Liquidity Facility and the same shall remain unpaid for ten (10) Business Days after written notice of such failure has been given to FSA, the Department and the Trustee; or

(c) An Insurer Adverse Change (as defined in the Liquidity Facility) shall occur; or

(d) Any Governmental Authority (as defined in the Liquidity Facility) with jurisdiction to rule on the validity of the Policy shall announce, find or rule that the Policy, or any provision of the Policy relating to payments thereunder, is not valid and binding on FSA; or

(e) The validity or enforceability of the Policy, or any provision of the Policy relating to payments thereunder, shall be contested in writing by FSA or FSA shall initiate any legal proceedings to seek an adjudication that the Policy, or any provision of the Policy relating to payments thereunder, is not valid and binding on FSA; or

(f) An Insurer Event of Insolvency (as defined in the Liquidity Facility) shall have occurred;

or

(g) FSA shall fail to make any payment when due under any bond insurance policy (other than the Policy) issued by it insuring obligations publicly rated by any of Moody's, Fitch or S&P, and such failure shall continue for a period of 30 Business Days unless the obligation of FSA to pay is being contested by FSA in good faith by appropriate proceedings; or

(h) (i) Each of Moody's, Fitch and S&P shall downgrade the rating of the financial strength or claims-paying ability of FSA to below Investment Grade (as defined in the Liquidity Facility) or (ii) each of Moody's, Fitch and S&P shall suspend or withdraw such financial strength or claims paying ability rating of FSA for credit related reasons and the rating so suspended or withdrawn is not reinstated within 30 days of the date of such suspension or withdrawal; or

(i) Any material representation or warranty made by or on behalf of the Department in the Liquidity Facility or in any Related Document (as defined in the Liquidity Facility) or in any certificate or statement delivered shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(j) The Department shall default in the due performance or observance of any of the covenants set forth in specified sections of the Liquidity Facility; or

(k) The Department shall default in the due performance or observance of any other term, covenant or agreement contained in the Liquidity Facility (other than those referred to in paragraph (a), (b), (i) and (j) and such default shall remain unremedied for a period of 30 days after the Bank shall have given written notice thereof to the Department; or

(l) The Department shall be in default in the payment of any principal or interest with respect to any Debt (as defined in the Liquidity Facility) ranking on a parity with the Series D Bonds, or the Department shall default in the performance of any agreement (including any Related Document) under which any such obligation is created if the effect of such default is to cause such obligation to become, or to permit any holder or beneficiary thereof, or a trustee on behalf thereof, with notice if required, to declare such obligation to be, due prior to its normal maturity, or a moratorium shall have been declared or announced (whether or not in writing) by the Department with respect to any of the Debt ranking on a parity with the Series D Bonds, and any of the foregoing may (in the reasonable judgment of the Bank) have a material adverse effect on the ability of the Department to perform its obligations under the Liquidity Facility or under the Related Documents to which it is a party; or

(m) (i) The Department shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar independent official for it or for all or any substantial part of its assets, or the Department shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Department any case, proceeding or other action of a nature referred to in clause (i) above which (y) results in an order for such relief or in the appointment of a receiver or similar official or (z) remains undismissed, undischarged or unbonded for a period of 90 days; or (iii) there shall be commenced against the Department any case, proceeding or other action seeking execution and deliverance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 90 days from the entry thereof; or (iv) the Department shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Department shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts; or

(n) Any material provision of the Liquidity Facility or any Related Document (other than the Policy) shall at any time for any reason cease to be valid and binding on the Department or any other

party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Department or such other party thereto or by any governmental agency or authority having jurisdiction, or the Department or such other party shall deny that it has any or further liability or obligation under any such document.

***Remedies upon an Event of Default.*** If any Event of Default occurs and is continuing, the Bank has the following remedies:

(1) In the case of an Event of Default as specified in either paragraph (b) or (c) above, the Bank may give written notice (a "Notice of Termination") of such Event of Default to the Trustee, Tender Agent, the Paying Agent, the Department and the Remarketing Agent, requiring a Termination Tender (as defined in the Liquidity Facility). The obligation of the Bank to purchase Series D Bonds shall terminate at the close of business on the Business Day specified in such Notice of Termination, which shall be a Business Day not less than 10 calendar days after the date such Notice of Termination is received by the Trustee and, on such date, the Available Commitment shall terminate and the Bank shall be under no further obligation to purchase Series D Bonds.

(2) In the case of an Event of Default as specified in paragraph (d), or a Default (as defined in the Liquidity Facility) specified in paragraph (g) or clause (ii) of paragraph (h) above (each, a "Suspension Event"), the Bank's obligations to purchase Series D Bonds under the Liquidity Facility shall immediately be suspended without notice or demand to any person and, thereafter, the Bank shall be under no obligation to purchase Series D Bonds until the Available Commitment (as defined in the Liquidity Facility) is reinstated as described below. Promptly upon the occurrence of such Suspension Event, the Bank shall notify the Department, FSA, the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agent of such suspension in writing; provided, that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment and of the Bank's obligation to purchase Series D Bonds pursuant to the Liquidity Facility. The Department shall promptly direct the Tender Agent in writing to notify all Bondholders of any suspension of the obligation of the Bank to purchase Series D Bonds as a result of the occurrence of such Suspension Event. If at any time prior to the earlier of (i) the then current Expiration Date and (ii) the date that is three years following the suspension of the obligation of the Bank to purchase Series D Bonds, (x) the Default or Event of Default which gave rise to such suspension is cured or ceases to be continuing and (y) the obligation of the Bank to purchase Series D Bonds under the Liquidity Facility has not otherwise terminated, then, upon written notice from the Bank to the Tender Agent to such effect, the obligation of the Bank to purchase Series D Bonds under the Liquidity Facility shall be automatically reinstated. If the Default or Event of Default which gave rise to the suspension of the obligations of the Bank to purchase Series D Bonds under the Liquidity Facility has not been cured prior to, or is continuing on, the date that is three years following the suspension of the obligation of the Bank to purchase Series D Bonds, (including the pendency of any litigation involving the validity of the Policy), then, the obligation of the Bank to purchase Series D Bonds shall be terminated upon written notice from the Bank to the Department, the Trustee, the Tender Agent, the Remarketing Agent and FSA to such effect and, thereafter, the Bank shall have no further obligations to purchase any Series D Bonds; provided that the Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Bank to purchase Series D Bonds under the Liquidity Facility. Notwithstanding the foregoing provisions of this paragraph (2), the Tender Agent shall provide written notice to the Bondholders, the Department, FSA and the Remarketing Agent of any suspension, termination or reinstatement of the Bank's obligations described in this paragraph (2).

(3) In the case of an Insurer Event of Default, the Available Commitment and the obligation of the Bank to purchase Series D Bonds shall immediately terminate without notice or demand to any person and, thereafter, the Bank shall be under no obligation to purchase Series D Bonds. Promptly upon such Insurer Event of Default, the Bank shall give written notice of the same to the Trustee, the Tender Agent, the Department, FSA and the Remarketing Agent; provided, that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the Bank's obligation to purchase Series D Bonds pursuant to the Liquidity Facility. The Trustee shall immediately notify all Bondholders of the termination of the Available Commitment and the obligation of the Bank to purchase the Series D Bonds.

(4) Upon the occurrence of an Event of Default as specified in paragraph (i), (j), (k), (l), (m) or (n) above, the Bank shall have all remedies provided at law or equity, including, without limitation, mandamus or specific performance; provided, however, that the Bank shall not have the right to terminate its obligation to purchase Series D Bonds, to declare any amount due under the Liquidity Facility due and payable, or to accelerate the maturity date of any Series D Bonds except as provided in the Indenture. Without limiting the generality of the foregoing, the Bank agrees to purchase Series D Bonds on the terms and conditions of the Liquidity Facility notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Department. The Bank will not assert as a defense to its obligation to purchase Series D Bonds under the Liquidity Facility (i) the institution or pendency of a bankruptcy, insolvency or similar proceeding with respect to the Department, or (ii) a determination by a court of competent jurisdiction in a bankruptcy, insolvency or similar proceeding with respect to the Department that the Liquidity Facility is not enforceable against the Department under applicable bankruptcy, insolvency or similar laws.

## **DEPFA BANK plc**

The following information has been provided by the Bank (at times referred to hereinafter as "DEPFA") for use in this Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Department or the Remarketing Agent. This information has not been independently verified by the Department or the Remarketing Agent. No representation is made by the Department or the Remarketing Agent as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DEPFA BANK plc ("DEPFA") is the parent company of the DEPFA BANK plc group of companies comprising DEPFA and its consolidated subsidiaries (the "Group"). DEPFA will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of DEPFA BANK plc, Dublin. DEPFA is based in Dublin and has a banking license from the Irish Financial Services Regulatory Authority as part of the Central Bank and Financial Services Authority of Ireland (formerly the Central Bank of Ireland). It is registered in the Irish companies Registration Office with company number 348819 and its shares are listed on the Frankfurt Stock Exchange. DEPFA has a network of subsidiaries, branches and offices across many European countries, as well as in North America and Asia.

The Group provides a broad range of products and services to public sector entities, from governmental budget financing and financing of infrastructure projects to placing of public sector assets and investment banking and other advisory services. The Group has direct client contacts with many state entities and focuses on those public sector entities involved in large volume business. The Group advises individual public sector borrowers on their international capital market transactions and preparations for the ratings process.

As of December 31, 2003, DEPFA had total consolidated assets of Euro 174.0 billion, outstanding medium and long term loans to customers of Euro 63 billion, shareholders' equity of Euro 1.4 billion and

consolidated net income of Euro 384 million, determined in accordance with the United States generally accepted accounting principles (US GAAP). DEPFA maintains its records and prepares its financial statements in Euro. At December 31, 2003, the exchange rate was 1.0000 Euro equals 1.2630 United States dollars. Such exchange rate fluctuates from time to time.

On March 1, 2004, DEPFA announced that it intends to sell its German subsidiary, DEPFA Deutsche Pfandbriefbank AG, which represents approximately 50% of the Group's total assets and approximately 20% of net profits, as of December 31, 2003. Deutsche Pfandbriefbank AG is primarily engaged in public finance in Germany. The transaction should permit DEPFA to de-leverage its balance sheet and further expand and diversify its business internationally, including the U.S. public finance market. Information regarding the status of the sale of DEPFA Deutsche Pfandbriefbank AG is available on DEPFA's website at: [www.depfa.com](http://www.depfa.com).

DEPFA is rated "Aa3" long-term and "P-1" short-term by Moody's, "AA-" long-term and "A-1+" short-term by S&P, and "AA-" long-term and "F1+" short-term by Fitch. In connection with the intended sale of DEPFA Deutsche Pfandbriefbank AG, on March 1, 2004, Moody's placed DEPFA BANK plc and related entities on negative outlook, noting uncertainty as to how DEPFA will expend sale proceeds. DEPFA's short-term ratings were not affected.

DEPFA will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: DEPFA BANK plc, New York Branch, 623 Fifth Avenue, 22nd Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date. In addition, updated financial information may be found from the DEPFA website at: [www.depfa.com](http://www.depfa.com).

## **SWAP AGREEMENT**

In connection with the issuance of the Series D Bonds, the Department will enter into an interest rate swap agreement (the "Swap Agreement") with Goldman Sachs Capital Markets, L.P. (the "Swap Provider"), which will become effective upon the delivery of the Series D Bonds. Pursuant to the Swap Agreement payments will begin accruing January 1, 2005 and payments will be made semiannually beginning on March 1, 2005, computed based on a variable rate intended to approximate the variable interest rate on the Series D Bonds, on a notional amount corresponding to the outstanding principal amount of the Series D Bonds, provided that the variable rate payments to the Department may not equal the variable interest payable on the Series D Bonds. The Department will agree to pay to the Swap Provider on such dates, payments computed at a fixed rate, on the same notional amount. Payments from the Department to the Swap Provider under the Swap Agreement are subordinate to payments of principal of and interest on the Bonds.

In connection with the issuance of the Series D Bonds, the Department will enter into an interest rate swap agreement. See "SWAP AGREEMENT."

The Department's scheduled payments under the Swap Agreement to the Swap Provider will be insured by FSA and payments by the Swap Provider to the Department will be an unsecured general obligation of the Swap Provider. The Swap Policy does not insure payments of principal of and interest on the Series 2004 Bonds. Any payments from the Swap Provider to the Department will not be pledged for the payment of principal of and interest on any Bonds. The payment obligations of the Department and the Swap Provider under the Swap Agreement may be netted against other swap transactions. Payments from the Department to the Swap Provider under the Swap Agreement are subordinate to payments of principal and interest on the Bonds.

With respect to the Department's Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B (the "Series 2004B Bonds"), the Department entered into an interest rate swap agreement with UBS AG, pursuant to which payments began September 1, 2004 and will be made semi-annually beginning March 1, 2005. Payments under this swap agreement are subordinate to payments of principal and interest on the Bonds. The payments under this swap agreement are insured by FSA.

## **SECURITY FOR THE BONDS**

### **Pledge of Trust Indenture**

The Bonds, including the Series 2004 Bonds and the Series F Bonds, if issued, are equally and ratably secured by the Trust Indenture for the equal benefit, protection and security of the owners of the Bonds, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Trust Indenture.

Principal or Redemption Price of and interest on all Bonds are payable solely from and are secured by a pledge of and lien on the Trust Estate, which consists generally of the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), money and Investment Securities held in the Funds (excluding the Rebate Fund, the 2004 C/D/E Swap Agreement Termination Payment Subaccount and the 2004 C/D/E Swap Agreement Termination Receipt Subaccount of the Surplus Revenues Account of the Revenue Fund and the Policy Payments Account), and other property pledged under the Trust Indenture and any supplemental indenture. Revenues include all payments with respect to the Mortgage Loans (net of servicing, accounting and collection fees) which include Mortgage Certificates (net of servicing and guaranty fees) and the earnings on investments of amounts held under the Trust Indenture and any supplemental indenture. Revenues do not include Swap Agreement Periodic Receipts or Swap Agreement Termination Receipts, payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans (including Mortgage Certificates), and any payments required to be made with respect to Mortgage Loans (including Mortgage Certificates) for taxes, other governmental charges, and other similar charges customarily required to be escrowed on mortgage loans or commitment fees or other financing charges paid by a Mortgage Lender or the Servicer to the Department in connection with a commitment to sell and deliver Mortgage Loans (including Mortgage Certificates) to the Department. Swap Agreement Periodic Receipts will be available to pay Debt Service on the Bonds. Bondholders have no rights to or lien on the Swap Agreement.

All Bonds issued under the Trust Indenture are also equally and ratably secured by amounts in the Debt Service Reserve Account of the Debt Service Fund. See "THE TRUST INDENTURE -- Debt Service Reserve Account." The Trust Indenture requires that the Debt Service Reserve Account be funded in the amount sufficient to cause the Account to be maintained at a level at least equal to three percent (3%) of the aggregate principal amount of Mortgage Loans outstanding (zero percent (0%) for Mortgage Loans represented by Mortgage Certificates) from time to time. As of June 30, 2004, the Debt Service Reserve Requirement for the Bonds was \$1,085,122. As of such date, \$1,085,122 was on deposit in the Debt Service Reserve Account. Because the Mortgage Loans to be made with proceeds of the Series 2004 Bonds are to be represented by Mortgage Certificates, no deposit to the Debt Service Reserve Account will be made in connection with the issuance of the Series 2004 Bonds.

The Department has covenanted in the Trust Indenture to enforce diligently, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans, including the prompt payment of all Mortgage Loan interest and principal payments and all other amounts due the Department thereunder, the enforcement of any insurance policy or guaranty relating to a Mortgage Loan, and the foreclosure of Mortgages or enforcement of security interests for defaulting Mortgage Loans. The Department has further covenanted not to release the obligation of any borrower under any

Mortgage Loan, except upon the execution of a valid and enforceable assumption agreement as permitted by the Trust Indenture, and at all times, to the extent permitted by law, to defend, enforce, preserve and protect the rights and privileges of the Department and of the Bondholders under or with respect to each Mortgage Loan. The Department reserves the right to settle a default on any Mortgage Loan on such terms as the Department shall determine to be in the best interests of the Department and the Bondholders and to forebear from taking action with respect to enforcement of a Mortgage Loan, if it determines such forbearance to be in the best interest of the Department and the Bondholders. The Department has the right under the Trust Indenture to refinance any Mortgage Loan if it will not adversely affect the tax-exempt status of interest on the Series 2004 Bonds.

**The Series 2004 Bonds are limited obligations of the Department. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, including Ginnie Mae, Freddie Mac and Fannie Mae, is obligated to pay the principal or Redemption Price of or interest on the Series 2004 Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power. Ginnie Mae, Freddie Mac and Fannie Mae guarantee only the payment of the principal of and interest on the Ginnie Mae Certificates, Freddie Mac Certificates and Fannie Mae Certificates, respectively, when due and do not guarantee the payment of the Series 2004 Bonds or any other obligations issued by the Department.**

### **The Prior Bonds**

In addition to the Series 2004 Bonds to be issued, thirty-three series of the Department's Single Family Mortgage Revenue Bonds have been issued pursuant to the Trust Indenture, and to the extent Outstanding are secured on an equal and ratable basis by the Trust Estate established by the Trust Indenture. As of June 30, 2004, seventeen series of such Prior Bonds were Outstanding in an aggregate principal amount of \$509,100,000. For more detailed information concerning the original principal amounts and Outstanding amounts of the Prior Bonds, please refer to "APPENDIX F-1 - DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

### **Junior Lien Bonds**

In addition to the Single Family Mortgage Revenue Bonds, the Department has issued \$105,135,932 in original principal amount of its Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A, Taxable Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994B, and Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A, and its Taxable Junior Lien Single Family Variable Rate Mortgage Revenue Bonds, Series 2004A (collectively, the "Junior Lien Bonds") pursuant to the Junior Lien Trust Indenture. As of June 30, 2004, \$14,085,000 of such bonds remain outstanding. For additional information on the Junior Lien Bonds, see "APPENDIX F-1 -- DEPARTMENT'S MORTGAGE LOAN PORTFOLIO -- Junior Lien Trust Indenture". The Junior Lien Bonds are limited obligations of the Department and are payable solely from the Revenues (as defined in the Junior Lien Trust Indenture) and funds pledged for the payment thereof on a basis which is junior and subordinate to the pledge securing the Bonds outstanding under the Trust Indenture. The primary source of revenue under the Junior Lien Trust Indenture is Surplus Indenture Revenues. Revenues under the Trust Indenture only become Surplus Indenture Revenues available to be released to pay debt service on the Junior Lien Bonds to the extent such revenues are, on any March 1 or September 1 or other date on which such debt service is payable, in excess of one hundred percent (100%) of (i) all Debt Service on the Bonds, including Swap Agreement Periodic Payments, (ii) amounts required to fund reserves for the Bonds, and (iii) all expenses of the Department in administering the programs related to the Bonds. See "THE TRUST INDENTURE -- Revenue Fund."



## **Prior Mortgage Loans and Mortgage Certificates**

The proceeds of certain Prior Bonds and certain other moneys have been used to purchase Mortgage Loans (including Mortgage Certificates representing Mortgage Loans). All Mortgage Loans acquired to date under the Trust Indenture are fixed rate loans for terms not exceeding 30 years. As of June 30, 2004, the Outstanding amount of Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds was \$229,893,886. For more detailed information on the Mortgage Loans, the portfolio of Mortgage Loans (including Mortgage Certificates representing Mortgage Loans), delinquent Mortgage Loans and information regarding Mortgage Loan Insurance, please refer to "APPENDIX F-1 - DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

Since the inception of the Department's Program, the Department has foreclosed on approximately 3,054 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of \$157,078,537. As of June 30, 2004, the Department continues to hold title to property securing three of such Mortgage Loans aggregating \$46,372. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has entered into a contract with outside contractors to manage, maintain and arrange for sales, in conjunction with real estate brokers, of such real estate owned. See "APPENDIX F-1 -- DEPARTMENT'S MORTGAGE LOAN PORTFOLIO" for information concerning the Department's current delinquency and foreclosure rates with respect to the Mortgage Loans.

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

On the basis of the Statement of Projected Revenues prepared in connection with the issuance of the Series 2004 Bonds, as discussed below, the Department expects that the scheduled payments, together with prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or Redemption Price of and interest on the Series 2004 Bonds and all other Bonds outstanding when due. In arriving at the foregoing conclusions, the Department has included all Prior Bonds but has not considered the issuance of other additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture will rank equally and ratably with the Series 2004 Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds. See "Additional Bonds."

## **Investment of Funds**

Moneys in all Funds other than the Debt Service Fund (except for the Debt Service Reserve Account therein) will be invested pursuant to the Depository Agreement with the Texas Treasury Safekeeping Trust Company in Investment Securities. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY." Moneys held or invested in all Funds and Accounts under the Trust Indenture (other than the Rebate Fund, the 2004 C/D/E Swap Agreement Termination Payment Subaccount, the 2004 C/D/E Swap Agreement Termination Receipt Subaccount and the Policy Payments Account) are for the equal and ratable benefit of all owners of the Bonds.

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

Proceeds of the Series 2004 Bonds deposited into the 2004 C/D/E Mortgage Loan Account of the Mortgage Loan Fund will be invested with Transamerica Occidental Life Insurance Company, at an investment rate of 2.425% per annum, with an investment maturity date of July 1, 2006. Moneys in the 2004 C/D/E

Account of the Revenue Fund for the Series 2004 Bonds will be invested with Transamerica Occidental Life Insurance Company at an investment rate of 3.80% per annum, with an investment maturity of March 1, 2036.

The investment agreements (or GICs) described above evidence the obligation of the respective investment agreement providers to pay principal of and interest on such moneys to the Trustee at certain times for use in accordance with the Trust Indenture. The investment agreements are obligations solely of the investment agreement providers and their guarantors, if any. The investment agreements give the Department no interest in or control over investments made by the investment agreement providers. There can be no assurance that the investment agreement providers will be able to pay principal of and interest on such moneys at such rates on a timely basis.

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

### **Statement of Projected Revenues**

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

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

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

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

(ii) as provided in the next preceding paragraph;

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

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

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

### **Mortgage Insurance**

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

### **Mortgage Pool Insurance**

The Indenture imposes no requirement for mortgage pool insurance upon the Series 2004 Bonds or additional Bonds issued in the future. The Trust Indenture does require that, for Bonds issued prior to November 14, 1996, the Department use its best reasonable efforts to maintain a mortgage pool insurance policy in an amount at least equal to ten percent (10%) of the initial aggregate principal amount of Mortgage Loans acquired with the proceeds of all series of Bonds issued prior to November 14, 1996. Due to the fact that the cost of mortgage pool insurance was, at the time, prohibitively expensive, the Department established a mortgage pool self-insurance program in connection with its 1986 Series A Bonds, 1986 Series B Bonds, and 1987 Series B Bonds. Similarly, the Department was unable to obtain mortgage pool insurance at commercially reasonable rates for Mortgage Loans to be provided with proceeds of the Series 1995 Bonds and Series 1996 Bonds. Instead, such Mortgage Loans have been included in Mortgage Certificates. Information concerning mortgage insurance and guaranty programs, including the Department's mortgage pool self-insurance program, and the extent of the coverage provided thereby is contained in "APPENDIX B -- SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS."

### **Additional Bonds**

Various series of Bonds, including refunding Bonds, may be issued as provided in the Trust Indenture on a parity with the Bonds of all other series, secured by a pledge of and lien on the Trust Estate. As a condition to the issuance of additional Bonds, including refunding Bonds, the Department must deliver various

items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the series of Bonds is legally issued in accordance with the Trust Indenture and the Act. The Department must also deliver a Statement of Projected Revenues which gives effect to the issuance of such additional Bonds, including refunding Bonds, and demonstrates that (i) the estimated Revenues and any other revenues, investment income or moneys reasonably estimated by the Department to be available for the payment of aggregate Debt Service, including Swap Agreement Periodic Payments, for all Outstanding Bonds when due will be sufficient to pay the aggregate Debt Service for all Outstanding Bonds, including Swap Agreement Periodic Payments, and (ii) the remaining balance of the scheduled and estimated Revenues and other revenues, investment income or moneys reasonably estimated by the Department to be available to pay budgeted or estimated Department Expenses allocable by the Department to the Bonds, the Trust Indenture and the Department's programs under the Trust Indenture will be sufficient to pay such budgeted or estimated Department Expenses. No additional parity Bonds may be issued unless, upon the issuance of such Bonds, the amounts credited to the Debt Service Reserve Account will be sufficient to maintain its requirements. The Department has reserved the right to adopt one or more additional general bond indentures and to issue other obligations, such as the Junior Lien Bonds, payable from sources other than the Trust Estate and has also reserved the right to issue obligations payable from the Trust Estate, including the Revenues, if the pledge of and lien on the Trust Estate and the Revenues securing such obligations is junior to or subordinate to the pledge of and lien on the Trust Estate and the Revenues securing the Bonds.

### **Sale of 2004 Mortgage Certificates**

The Department may sell the 2004 Mortgage Certificates in whole or in part only upon delivery by the Department of (i) an opinion of Bond Counsel that such sale will not cause all or any portion of the 2004 Mortgage Certificates, or the Series 2004 Bonds to be classified as a "taxable mortgage pool" within the meaning of Section 7701(i) of the Code and the applicable Treasury Regulations promulgated thereunder; and (ii) written confirmation from each Rating Agency that such sale will not adversely affect the then current ratings on the Bonds (determined without regard to any financial guaranty policy with respect to the Series 2004 Bonds). If proceeds from the sale of 2004 Mortgage Certificates are to be applied to the redemption of Series 2004 Bonds, such Series 2004 Bonds must be redeemed under the applicable optional redemption provision.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2004 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Financial Guaranty Insurance Policy for the Series 2004 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2004 Bonds when due as set forth in the form of the Policy included as Appendix I to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,104,257,000 and its total unearned premium reserve was approximately \$1,356,385,000 in accordance with statutory accounting practices. At December 31, 2003, Financial Security's total shareholders' equity was approximately \$2,307,646,000 and its total net unearned premium reserve was approximately \$1,166,562,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Series 2004 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2004 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

## **ASSUMPTIONS AND RISKS**

### **Assumptions**

On the basis of the Statement of Projected Revenues prepared in connection with the issuance of the Series 2004 Bonds, the Department expects that the scheduled payments, together with Mortgage Loan Principal Prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or redemption price of and interest on the Series 2004 Bonds and all other Prior Bonds Outstanding when due. In arriving at the foregoing conclusions, the Department has included all Bonds but has not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture, unless subordinated, will rank equally and ratably with the Series 2004 Bonds and the Prior Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds.

The maturities and mandatory sinking fund installments of the Series 2004 Bonds have been established on the basis of the consolidated scheduled payments of the Mortgage Loans (including Mortgage Certificates) under the Trust Indenture. The interest rates on the Mortgage Loans acquired with moneys made available upon the issuance of the Series 2004 Bonds will be established so that payments of principal of and interest on the Mortgage Loans and the Mortgage Certificates outstanding under the Trust Indenture, and moneys on deposit in the various funds and accounts under the Trust Indenture (as well as income derived from investments thereof) are expected to generate sufficient revenues to pay on a timely basis the principal of and interest on all Bonds outstanding under the Trust Indenture, including the Series 2004 Bonds, and certain other amounts required to be paid under the Trust Indenture, on the basis of, among others, the following assumptions:

- (a) the investment of moneys held in the Mortgage Loan Fund, the Revenue Fund, the Debt Service Fund (including the Principal Account, Interest Account, the Debt Service Reserve Account and the Redemption Account), and the Expense Fund at the rates per annum applicable to each (a portion of the earnings from which may be subject to rebate to the United States Department of Treasury), and the making of timely payments to the Trustee of amounts due under such investments;

(b) the payments on the Mortgage Loans (including the Mortgage Certificates) will be made in full substantially on a timely basis;

(c) the Mortgage Lenders and the Master Servicer will perform their duties in a timely manner;

(d) all future expenses with respect to the Series 2004 Bonds and administering and servicing the Mortgage Loans, including the Trustee's fees and payment of Department's Expenses, will be paid in full on a timely basis from interest paid on the Mortgage Loans and the Mortgage Certificates and investment income on funds held by the Trustee with respect to the Mortgage Loans;

(e) Series 2004 Bonds proceeds and certain other amounts held under the Trust Indenture will be sufficient to pay the Underwriters' fees with respect to the Series 2004 Bonds and the other costs of issuing the Series 2004 Bonds;

(f) the 2004 Mortgage Loans will have a term of thirty (30) years, the 2004 Series E Mortgage Loans will have a remaining term of approximately twenty (20) years, and will provide for payment of principal and interest in approximately equal monthly installments; and

(g) payments due under the Swap Agreements are in amounts that approximate the interest amounts on the 2004 Series D Bonds due and owing and are made on a timely basis.

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

### **Termination of Mortgage Loans and Mortgage Certificates**

Mortgage Loans and Mortgage Certificates may be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments, default, sale, condemnation, casualty loss or noncompliance with the Program. All Mortgage Loan Principal Prepayments or other payments in respect of early termination will be deposited in the Revenue Fund and transferred to the Principal Account or the Redemption Account of the Debt Service Fund for use to redeem Bonds in accordance with the Trust Indenture. **Accordingly, the Department anticipates that substantially all of the Series 2004 Bonds will be redeemed prior to their scheduled maturities.**

### **Federal Guarantee Limits**

The dollar amount of commitments to guarantee securities that Ginnie Mae can approve and the dollar amount that FHA and VA can insure or guarantee in any federal fiscal year is limited by statute and administrative procedures. If an appropriation act is not passed in any federal fiscal year or if Ginnie Mae, FHA or VA reach the limits of their respective authority, or if Ginnie Mae, in its sole discretion, or the federal government alters or amends the Ginnie Mae Mortgage-Backed Securities Program in such a way as to prevent the Mortgage Lenders from originating Mortgage Loans during the origination period and the Servicer from issuing Ginnie Mae Certificates prior to the acquisition date therefor, the Mortgage Lenders may be unable to originate Mortgage Loans and the Servicer may be unable to issue Ginnie Mae Certificates in the anticipated aggregate principal amount. **The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee in amounts contemplated by this financing would result in the early redemption of the Series 2004 Bonds prior to their maturity.** See "THE SERIES 2004 BONDS - Redemption Provisions."

## **Swap Basis Risk**

In connection with the issuance of the Series D Bonds, the Department will enter into a Swap Agreement, which will become effective upon the sale of the Series D Bonds. Pursuant to the Swap Agreement the Department will pay the Swap Provider, payments computed at a fixed rate, based on a notional amount which corresponds to the outstanding principal balance of the Series D Bonds, and the Swap Provider will pay the Department, payments computed based on a variable rate index on the same notional amount. The variable rate index used under the Swap Agreement is based on a percent of LIBOR, which is intended to approximate the variable interest rate on the Series D Bonds. Unlike LIBOR, however, the interest on the Series D Bonds is excludable from gross income for federal income tax purposes; therefore, one of the primary determinants of any changes to the relationship between the variable rate index used under the Swap Agreement and the interest rates on the Series D Bonds is expected to include, among other factors, any changes to the top marginal rate of federal income taxation. While it is expected that payments to the Department under the Swap Agreement will equal or exceed the Department's interest obligation on the Series D Bonds, in certain interest rate and taxation environments the amounts paid under the Swap Agreement may be less than the interest obligation on the Series D Bonds. Regardless of the amount of moneys received under the Swap Agreement, the Department is obligated to make Series D Bond interest payments at rates that are determined by the Remarketing Agent. Any mismatch between Series D Bond interest payments and the payments due under the Swap Agreement could cause financial losses under the Indenture.

## **Swap Termination Risk**

Under certain circumstances, including certain events of default with respect to the Department or the Swap Provider, the Swap Agreement may be terminated in whole or in part prior to maturity. Following termination, if any, of the Swap Agreement, under certain market conditions, the Department could owe a termination payment to the Swap Provider that could be substantial. Such termination payment will be payable from amounts pledged under the Indenture, subject and subordinate to (i) the payment or provision of arbitrage rebate; (ii) expenses and compensation of the Trustee; (iii) the payment of principal and interest on the Series Bonds, and all Senior Bonds and Junior Lien Bonds, if any, (iv) the payment of regularly scheduled payments under the Swap Agreement, and (v) required replenishment of the Debt Service Reserve Fund, if any. The Bond Insurer has issued a swap insurance policy insuring the scheduled fixed payments from the Department. The Department's obligation to reimburse the Bond Insurer with respect to termination payments is subordinate to scheduled payment of principal and interest on the Series 2004A/B Bonds and all Senior Bonds and Junior Lien Bonds, if any, the payment of regularly scheduled payments under the Swap Agreement, and any required replenishment of the Debt Service Reserve Fund.

## **Non-Origination of Mortgage Loans**

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

In addition, there exists a risk of non-origination resulting from the reservation for a period of one year of approximately \$15,000,000 of the lendable proceeds of the Series 2004 Bonds for Mortgage Loans in certain federally designated targeted areas, and the reservation of the remaining lendable proceeds for persons and families of low and moderate income (for families of three or more persons, one hundred fifteen percent (115%) (one hundred forty percent (140%) for targeted area loans) of applicable median family income and for individuals and families of two persons one hundred percent (100%) (one hundred twenty percent (120%) for

targeted area loans) of applicable median family income). See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, and - Low and Moderate Income Reservation." As a result, the pool of potential mortgagors will be limited for such period and economic conditions or conventional mortgage rates may have adversely changed by the end of the set aside period.

The Department is currently purchasing mortgage certificates with the proceeds of its Single Family Bonds pursuant to one separate program. Additionally, the Department has, as of September 2, 2004, \$26,038,273 of mortgage funds available under its Residential Mortgage Revenue Bond Program with \$197,636,228 of mortgage loans purchased by the Master Servicer. Mortgage certificates purchased with the proceeds of its Residential Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of September 2, 2004:

<u>Active Program</u>	<u>Program Start Date</u>	<u>Mortgage Rate<sup>(1)</sup></u>	<u>Mortgage Funds Available</u>	<u>Amounts Purchased</u>	<u>Reservation Amounts<sup>(2)</sup></u>	<u>Remaining Funds</u>
Program 56	11/15/00	6.25%	126,415,000	122,899,906	2,338,432	1,176,662
Program 57A	7/1/02	4.99%	107,332,736	26,207,749	16,394,273	64,730,714
Program 59	1/27/03	5.30/5.99%	44,990,000	33,990,803	4,499,734	6,499,463
Program 59A	11/5/03	4.99/5.99%	71,056,914	40,745,519	11,949,247	18,362,148
Program 61	5/3/04	4.99/5.50%	175,865,983	34,653,652	49,679,430	91,532,901

<sup>(1)</sup> In March 2004, the Department lowered the mortgage rate on Program 57A from 5.90/6.65/7.20/7.45% to 5.90% (with 4% assistance) 6.20/6.50%. In August 2004, the Department lowered the mortgage rate on 57A from 5.90 (with 4% assistance)/ 6.20/6.50% to 4.99% unassisted.

<sup>(2)</sup> There are no assurances that any of the reservations by mortgage lenders for mortgage loans pending but not closed will ultimately result in the purchase of mortgage certificates.

The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee, in the amounts contemplated by this financing will result in redemption of the Series 2004 Bonds prior to their maturity. See "THE SERIES 2004 BONDS - Redemption Provisions."

### **Availability of Remedies**

The remedies available to the owners of the Series 2004 Bonds upon an Event of Default under the Trust Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy laws, the Trust Indenture and the various Program Documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2004 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity which permit the exercise of judicial discretion.

## **THE DEPARTMENT**

### **General**

The Department, a public and official governmental agency of the State of Texas (the "State") and a body corporate and politic, was created pursuant to and in accordance with Chapter 2306, Government Code, as amended from time to time (together with other laws of the State applicable to the Department, the "Act"). 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 their functions and obligations transferred to the Department. One of the purposes of the Department is to provide for the housing needs of individuals and families of low, very low and extremely low income and families of moderate income in the State. 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 resulted in passage of legislation in the Seventy-Eighth Legislative Session in 2003 which continues the Department in existence until September 1, 2011, at which time it will again be subject to review. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished under the provisions thereof and provides that the Governor of the State shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act 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.

### **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 Chairperson of the Board at the pleasure of the Governor. The Chairperson 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 Chairperson to perform the duties of the Chairperson when the Chairperson 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:

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

C. KENT CONINE, Vice Chair and Board Member. President, Conine Residential Group, Frisco, Texas. His term expires January 31, 2007.

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

VIDAL GONZALEZ, Board Member. Banker, Del Rio, Texas. His term expires January 31, 2005.

PATRICK GORDON, Board Member. Attorney/Partner at Gordon & Mott, P.C., El Paso, Texas. His term expires January 31, 2007.

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

All of the above Board members have been appointed by the Governor. One position currently remains vacant.

### **Administrative Personnel**

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

Currently, the Department has 273 employees. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

EDWINA P. CARRINGTON, Executive Director. Ms. Carrington joined the Department as Executive Director on March 11, 2002, having served as Multifamily Manager, Programs Manager, and Multifamily Compliance Officer for the Agency from August 1985 to June 1990. In such positions, Ms. Carrington's duties included management of single family loan purchase programs, multifamily housing development financing programs, mortgage credit certificate programs, the low-income tax credit program, and preparation of annual operating budgets for the programs area. Upon leaving the Agency in 1990, Ms. Carrington became the manager of the Austin Housing Finance Corporation in which she was responsible for the operations of the City of Austin Housing Assistance Fund, tax exempt bond portfolio, affordable housing programs and long range housing planning. Immediately prior to being employed as Executive Director of the Department, Ms. Carrington was the Chief Executive Officer of Texas Housing Finance Corporation, a 501(c)(3) organization created to assist development of affordable housing through a series of tax credit equity funds, a position she has held since April 1994. Prior to originally joining the Agency in 1985, Ms. Carrington has been a vice president for property management for multifamily projects, seminar leader for the National Association of Housing and Development Officials, regional director for the Dallas Center of Management, and housing community development director for the Ark-Tex Council of Governments. Ms. Carrington has a B.S. degree from Tennessee Technological University, earned a Masters in public administration from Texas A & M University, Texarkana and is a Certified Commercial Investment Manager (CCIM). Ms. Carrington is a member of numerous housing organizations, including as having served as President of the Texas Association of Local Housing Finance Agencies, Texas Affiliation of Affordable Housing Providers, and the National Association of State and Local Equity Funds, as well as serving as board member of the Association of Local Housing Finance Agencies.

BYRON V. JOHNSON, Director of Bond Finance and Co-Investment Officer. Byron V. Johnson has served the Department as Director of Bond Finance since July 1999. He is responsible for the development and administration of the Department's Single Family Mortgage Revenue Bond program and the Department's Commercial Paper Program. Mr. Johnson also oversees ongoing compliance monitoring and disclosure

requirements related to the Department's investments and single family and multifamily bond programs. Mr. Johnson's prior career experience includes housing finance investment banking and internal auditing in the securities industry. Mr. Johnson earned an M.B.A. from the Fuqua School of Business at Duke University and a Bachelor of Business Administration degree in Accounting from Savannah State University. Mr. Johnson currently holds several investment and securities licenses and a Texas real estate license. Mr. Johnson is a Certified Mortgage Banker (CMB), Certified Treasury Professional (CTP) and Certified Housing Development Finance Professional.

BILL DALLY, Chief of Agency Administration. 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.

ERIC PIKE, Director of Single Family Finance Production. Mr. Pike has worked for the Department for the past ten years. He began his career at the Agency with the Community Development Block Grant Program (CDBG) and later joined the Single Family Lending Department. He serves as the Manager of Single Family Bond Program overseeing the development and administration of the Texas First Time Homebuyer Program. In August 2002, Mr. Pike was promoted to Acting Director of Housing Finance Programs wherein his responsibilities included the Single Family Bond Program, Loan Administration, the Texas Homebuyer Education Program and the HOME Investment Partnership Program. In March 2003, Mr. Pike began serving as the Director of the Single Family Finance Production Division where he oversees the Single Family application intake and awards process for the Department's Single Family programs, including all Single Family loan closing and fundings. Mr. Pike received his Bachelor of Business Administration in Finance and his Masters in Business Administration in Business Management from St. Edward's University in Austin, Texas.

CHRIS WITTMAYER, General Counsel. Mr. Wittmayer joined the Department on July 1, 2002, as General Counsel. Prior to joining the Department, Mr. Wittmayer was an Assistant City Attorney for the City of Dallas, Texas, for nearly ten years. In that position, he handled a landmark institutional reform case concerning public and affordable housing in the Dallas area, neighborhood revitalization, and fair housing. Prior to that time, he was in private practice in Dallas for two years handling business litigation and before that was an attorney in the Judge Advocate General's Corps, U.S. Army, for thirteen years handling diverse responsibilities, including civil litigation and criminal prosecution. Mr. Wittmayer received a B.S. degree from the United States Military Academy at West Point and a Master of Science in Systems Management from Florida Institute of Technology. He also received a J.D. from the University of Texas School of Law and an L.L.M. from the University of Virginia School of Law.

## **THE PROGRAM AND THE MORTGAGE LOANS**

### **The Program and Program 62**

The Department has established a Single Family Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). The component of the program relating to the Series 2004 Bonds will be designated as the Department's Bond Program No. 62 ("Program 62"). In connection with the issuance of the Series 2004 Bonds and the Prior Bonds and any additional Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or participations therein) originated by commercial banks, savings and loan associations, mortgage companies, non-profit corporations, and other

qualified financial institutions (the "Mortgage Lenders"). As a result of the issuance of the Series 2004 Bonds, the Trustee on behalf of the Department has agreed to purchase 2004 Mortgage Certificates.

Mortgage Loans evidenced by the 2004 Mortgage Certificates will bear interest at the rates established upon the issuance of the Series 2004 Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Trust Indenture. The purchase price for the 2004 Mortgage Certificates will be 99.025% of par (plus accrued interest) for Ginnie Mae Certificates (subject to adjustment upon written notice from the Department), 99.525% of par (plus accrued interest) for Freddie Mac Certificates and 99.525% of par (plus accrued interest) for Fannie Mae Certificates. The Department will purchase the 2004 Mortgage Certificates during a Certificate Purchase Period which will expire on January 1, 2006, but which may be shortened or extended, upon compliance with the terms of the Thirty-Eighth Supplemental Indenture. A portion of the amounts deposited into the 2004 C/D/E Mortgage Loan Account may be used to create Special Mortgage Loans.

### **General**

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

### **Mortgage Lender Reservations - First- Come, First-Served**

No funds made available through Program 62 will be allocated to any specific Mortgage Lenders. Rather, all of such funds will be made available to Mortgage Lenders on a controlled first-come, first-served basis.

### **Grant Assistance Program ("GAP")**

In connection with the use of Program 62 funds to finance Mortgage Loans to Eligible Borrowers, the Department may make available down payment and closing costs assistance on a first-come, first-served basis, to very low income (sixty percent (60%) of AMFI - see APPENDIX G -- APPLICABLE MEDIAN FAMILY INCOMES AND ACQUISITION COST LIMITATIONS) borrowers wherever located. The maximum amount of GAP down payment and closing costs assistance available will be four percent (4%) of the amount of the Mortgage Loan and no second lien will be required.

## **Down Payment Assistance Program ("DPAP")**

In connection with the use of Program 62 funds to finance Mortgage Loans to Eligible Borrowers, the Department may make available Down Payment and closing cost assistance to Eligible Borrowers on a first-come, first-served basis through its Down Payment Assistance Program. Under DPAP, down payment and closing costs assistance is required to be applied first to payment of closing costs and then to the Eligible Borrower's down payment with respect to the Mortgage Loan. If made available, the Department expects to restrict Down Payment assistance provided by DPAP to Eligible Borrowers of very low income (not exceeding 60% of applicable median family income). The amount of DPAP available to Eligible Borrowers will equal \$5,000, \$7,500 or \$10,000 depending upon the geographic location of the Eligible Borrowers' residences. DPAP will require a 0%, deferred amortization, second lien mortgage.

## **Targeted Area Reservation**

For the first twelve months of Program 62 (commencing on the date proceeds are first made available to finance Mortgage Loans, which is anticipated to be November 1, 2004), approximately \$15,000,000 of the lendable funds made available through the issuance of the Series 2004 Bonds will be required to be reserved for Mortgage Loans made in certain targeted areas. See "TAX MATTERS -- Federal Income Tax Requirements -- Targeted Area Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a Mortgage Loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 2004 Mortgage Certificates representing any Mortgage Loans made to Eligible Borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than 2 percent of the amounts available to make mortgage loans have been used to originate mortgage loans in such targeted areas. However, in its most recent programs, approximately eleven percent (11%) to twenty-two percent (22 %) of amounts available have been used to originate mortgage loans in such targeted areas.

## **Low and Moderate Income Reservation**

The remaining lendable funds will be made available for Mortgage Loans to Eligible Borrowers of low and moderate incomes whose family income does not exceed, for families of three persons or more, one hundred fifteen percent (115%) (one hundred forty percent (140%) in targeted areas) of applicable median family income, and, for individuals and families of two persons, one hundred percent (100%) (one hundred twenty percent (120%) in targeted areas) of applicable median family income.

## **Community Home Buyer's Program**

Pursuant to Fannie Mae requirements, in connection with Program 62, Mortgage Lenders will make available to all first time homebuyers participating in Program 62 whose Mortgage Loans are backed by Fannie Mae Certificates a comprehensive educational program known as the Community Home Buyer's Program (the "Community Home Buyer's Program"). The Community Home Buyer's Program provides more flexible loan underwriting than otherwise may be available. To qualify for the Community Home Buyer's Program, the mortgagor must first participate in home loan counseling seminars which will be made available on an on-going basis throughout Program 62. The seminars cover: (1) how to purchase a home; (2) budgeting; (3) evaluating the mortgagor's current ability to repay a mortgage; (4) homeownership planning; (5) loan closing; (6) home maintenance; and (7) avoiding a default.

## **Eligible Borrowers**

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

## **Eligible Property**

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

## **Eligible Mortgage Loans**

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

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

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

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

(d) Each Mortgage Loan must be covered by a valid and subsisting title insurance policy, the benefits of which run to the Department, in an amount at least equal to the outstanding principal

balance of the Mortgage Loan and the improvements on the real property securing each Mortgage Loan must be fully covered by a hazard insurance policy and a flood insurance policy, if in the flood plain, in such amount as the Department deems advisable;

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

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

The Department is not permitted under the Trust Indenture to sell, assign, transfer or otherwise dispose of any Mortgage Loan or any of the rights of the Department with respect to any Mortgage Loan unless the Department determines that such action is in the best interests of the Department and the Bondholders and will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds, in which case such Mortgage Loan may be so disposed of by the Department free and clear of the pledge of the Trust Indenture. See "SECURITY FOR THE BONDS -- Sale of 2004 Mortgage Certificates."

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

### **Compliance with Tax Law and Program Guidelines**

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

## **Compliance Agent**

The Master Servicer will act as compliance agent for Program 62 to review and examine, or cause to be reviewed and examined, certain documents submitted by each Mortgage Lender in connection with the Mortgage Loans and to make determinations with respect to compliance of such documents with requirements of the Department and the Program. Such requirements primarily relate to, among other things, compliance with FHA, RHS, or VA requirements, as applicable, compliance with the Ginnie Mae Guide, the Fannie Mae Guide, the Freddie Mac Guide and the applicable Program Supplement, and compliance of the Mortgage Loans with the required terms thereof.

## **Servicing**

### ***General***

In connection with Mortgage Loans made with proceeds of the Prior Bonds and not included within Mortgage Certificates, the Mortgage Lenders service the Mortgage Loans and the Department acts as an administrator, monitoring the Mortgage Lenders' activities and remittances to the Trustee. The Department maintains a schedule of anticipated receipts which each Mortgage Lender is expected to remit to the Trustee. The Mortgage Lenders report to the Department any delinquent payments and prepayments. The Department's computerized management information system reconciles Trustee receipts with Mortgage Lender reported remittances, reconciles loan amortization, monitors delinquencies and foreclosure actions, and monitors Mortgage Lender performance. Since the lendable funds made available through the issuance of the Series 2004 Bonds will be used to purchase Mortgage Certificates, the Department will not act as an administrator with respect to Mortgage Loans backed by Mortgage Certificates but will monitor the actions of the Master Servicer.

In connection with Mortgage Loans included in Mortgage Certificates, the Department has selected servicers for such Mortgage Loans. Such servicers are referred to herein individually as "Master Servicer" and collectively, as "Master Servicers." The Department has selected Countrywide Home Loans, Inc. ("Countrywide") to act as the Master Servicer for all Mortgage Loans under Program 62. The Department has previously contracted with CitiMortgage, Inc. formerly known as First Nationwide Mortgage Corporation to act as the Master Servicer for Mortgage Loans financed with funds made available through the issuance of the Series 1995A-1/B-1/C-1 and Series 1996 A/B/C/D/E Bonds. The Department contracted with Texas State Affordable Housing Corporation ("TSAHC") to act as the Master Servicer for Mortgage Loans financed with funds made available through the issuance of the Series 1997A/B/C/D/E Bonds. TSAHC, in turn, has contracted with Countrywide, as subservicer, to carry out the servicing responsibilities with respect to Mortgage Loans financed with funds made available through Series 1997 A/B/C/D/E Bonds.

### ***Servicing of Mortgage Loans Other than those Evidenced by Mortgage Certificates***

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



Lenders as permitted by law. A Mortgage Lender is required to pay all expenses incurred by it in connection with its servicing activities (including maintenance of its errors and omissions insurance policy and fidelity bond). A Mortgage Lender may, with the prior written consent of the Department, assign its servicing rights and obligations to another Mortgage Lender in good standing under the Program. The Department may maintain a list of approved standby servicers that have agreed to service Mortgage Loans originated by other Mortgage Lenders at the applicable servicing fee.

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

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

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

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

### ***Servicing of the Mortgage Loans Evidenced by the Mortgage Certificates***

Each Mortgage Lender will be required to assign its rights to service the Mortgage Loans evidenced by Mortgage Certificates originated by it to the Master Servicer. As compensation for its duties as servicer of Mortgage Loans, the Master Servicer will be entitled to receive a monthly servicing fee equal to one-twelfth of 0.44% (subject to adjustment upon written notice from the Department) of the outstanding principal amount of the Ginnie Mae Certificates issued by it and one-twelfth of 0.25% of the outstanding principal amount of the Fannie Mae Certificates and Freddie Mac Certificates delivered by it. Since the Mortgage Loans will bear interest at a rate which will be 0.50% greater than the rate on the corresponding Ginnie Mae Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on the Mortgage Loans included in a Ginnie Mae Certificate, with the remaining 0.06% paid to Ginnie Mae as its Ginnie Mae guaranty fee. See "APPENDIX C-1 -- GINNIE MAE AND THE GINNIE MAE CERTIFICATES." In the case of Mortgage Loans included in a Freddie Mac Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on such Mortgage Loans, with the remaining 0.25% paid to Freddie Mac as its Freddie Mac guarantee fee. See "APPENDIX C-2 -- FREDDIE MAC AND THE FREDDIE MAC CERTIFICATES." In the case of Mortgage Loans included in a Fannie Mae Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on such Mortgage Loans, with the remaining 0.25% paid to Fannie Mae as its Fannie Mae guarantee fee. See "APPENDIX C-3 -- FANNIE MAE AND THE FANNIE MAE CERTIFICATES."

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

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

## **The Master Servicers**

Countrywide Home Loans, Inc. ("Countrywide") has been selected by the Department to act as Master Servicer for 2004 Mortgage Loans under Program 62. Countrywide is currently serving as a Master Servicer for Series 2002 A/B/C Mortgage Loans and the 2004 A/B Mortgage Loans, and, as noted below, acts as sub-servicer for the Mortgage Loans financed with proceeds of the Series 1997A/B/C/D/E Bonds. As of June 30, 2004, Countrywide participates as Master Servicer for the Department for 233 loans which mortgage loans had an aggregate outstanding balance of \$18,448,162. Countrywide is engaged primarily in the mortgage banking business and, as such, originates, purchases, sells and services mortgage loans. Countrywide is a wholly-owned subsidiary of Countrywide Financial Corporation ("CFC"). CFC is a publicly-held corporation, the common stock of which is listed on the New York Stock Exchange and the Pacific Stock Exchange. CFC is subject to the information requirements of the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by CFC can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Offices of the SEC located at 233 Broadway, New York, New York 10279 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements, and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

The Master Servicer for Mortgage Loans financed with proceeds of the Series 1997A/B/C/D/E Bonds is Texas State Affordable Housing Corporation ("TSAHC"). Texas Star Mortgage ("TSM") is the registered business name of TSAHC and is a non-profit mortgage banking company engaging in single and multi-family lending to targeted rural and under-served areas in Texas. As of June 30, 2004, TSM participates as Master Servicer for the Department for 1,511 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance in the amount of \$91,812,226. At present Countrywide is acting as sub-servicer for TSM with respect to all of such Mortgage Loans. TSM was incorporated under the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon's Annotated Texas Civil Statutes, as amended and its purpose and mission are set forth by the 75th Texas Legislature. TSM is not a State agency. However, TSM is subject to significant state oversight by the State Auditor's Office, Texas Bond Review Board and Sunset Commission. TSM is an approved lender for FHA, a Ginnie Mae approved issuer of single family multi-family mortgage backed securities, and an approved seller/servicer for Fannie Mae and Freddie Mac.

CitiMortgage, Inc. ("CitiMortgage") is the Master Servicer for the Mortgage Loans financed with proceeds of the Series 1995A-1/B-1/C-1 Bonds and the Series 1996A/B/C/D/E Bonds. As of June 30, 2004, CitiMortgage participates as Master Servicer for the Department for 1,418 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance of \$80,398,333. CitiMortgage is involved in the mortgage banking business, with a focus on a wholesale lending operation and mortgage loan servicing. CitiMortgage is an approved FHA, VA, and RHS lender, a Ginnie Mae approved issuer/servicer for mortgage-backed securities guaranteed by Ginnie Mae and a Freddie Mac-approved seller/servicer for mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac.

## THE TRUST INDENTURE

### General

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

### FSA Treated as Bondholder

Notwithstanding the following descriptions, for so long as FSA is not in default under FSA's policy, the 2004 Supplemental Indenture provides that the Trustee shall recognize FSA as the holder of each Series 2004 Bond for purposes of exercising all options, votes, rights, powers, or the like available to the Bondholders under the Trust Indenture.

### Funds and Accounts

The following Funds are established under the Trust Indenture: Mortgage Loan Fund; Revenue Fund; Debt Service Fund (and a Principal Account, an Interest Account, a Debt Service Reserve Account, a 2004 Swap Agreement Periodic Payment Account, and a Redemption Account therein); Expense Fund (and a Rebate Account therein); and Special Mortgage Loan Fund. The Funds and Accounts (except for the Principal Account, Interest Account, 2004 Swap Agreement Periodic Payment Account and Redemption Account of the Debt Service Fund which are held and invested by the Trustee and the Expense Fund which is held by the Department) are held by the Trustee and maintained and invested by the Comptroller of Public Accounts of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company, as depository (the "Depository") under the Trust Indenture. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

The Thirty-Eighth Supplemental Indenture create a common account for the Series 2004 Bonds within each listed Fund and a common Subaccount for the Series 2004 Bonds within each listed Account except for the Special Mortgage Loan Fund and the Debt Service Reserve Account. In addition, the Thirty-Eighth Supplemental Indenture creates a 2004C/D/E Capitalized Interest Subaccount within the 2004 C/D/E Account of the Revenue Fund. The Thirty-Ninth Supplemental Indenture creates the 2004 C/D/E Swap Agreement Termination Payment Subaccount, the 2004C/D/E Swap Agreement Periodic Receipt Subaccount and the 2004 C/D/E Swap Agreement Termination Receipt Subaccount within the Surplus Revenues Account of the Revenue Fund. The 2004 C/D/E Swap Agreement Termination Payment Subaccount and the 2004 C/D/E Swap Agreement Termination Receipt Subaccount are not pledged as security for the payment of principal of or interest on any Bonds. The Thirty-Eighth Supplemental Indenture also creates the Policy Payments Account into which funds from claims on the municipal bond insurance policy will be deposited and which are not pledged to the payment of principal of or interest on any Bonds. The Accounts and Subaccounts so created do not grant a priority of the Series 2004 Bonds over that of any other series of Bonds.

### Mortgage Loan Fund

Certain proceeds of the Series 2004 Bonds will be transferred to the 2004 C/D/E Mortgage Loan Account of the Mortgage Loan Fund. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.

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

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

The Department has covenanted in the Trust Indenture that it will acquire, refinance or sell Mortgage Loans or Mortgage Certificates only if it has determined, on the basis of its most recent Statement of Projected Revenues, and other information available to it, that such action will not adversely affect the Department's ability to pay, when due, the principal or Redemption Price of and interest on the Bonds. See "SECURITY FOR THE BONDS - Certain Information as to Revenues, Investments, Debt Service and Department Expenses" and "-- Statement of Projected Revenues" and "SECURITY FOR THE BONDS - Sale of 2004 Mortgage Certificates."

### **Expense Fund**

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

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

### **Revenue Fund**

All Revenues are required to be deposited in the Revenue Fund promptly upon receipt by the Department. On the first day of each month, or as soon thereafter as possible, the Trustee is required to transfer from the Revenue Fund to the Expense Fund the amount, estimated by the Department, to be required to pay the Department Expenses during the next month together with the amount, if any, necessary to maintain or restore an operating reserve in the Expense Fund to the sum estimated in the Department's current annual budget to be required to pay two months' Department Expenses. The 2004 Supplemental Indenture requires the Department to estimate periodically the amounts necessary to pay an amount (the "Rebate Amount") to the United States of America as required under Section 148(f) of the Code and applicable provisions thereunder and thus include such amounts in its monthly estimate of Department Expenses.

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

account equals the amount of principal which will be due and unpaid on such Interest Payment Date, (iii) to the Debt Service Reserve Account, to the extent required so that the balance in such Account equals the Debt Service Reserve Account Requirement, and (iv) to the 2004 Swap Agreement Periodic Payment Account to the extent required so that the balance in said account equals the Swap Agreement Periodic Payment which will be due and unpaid on such Interest Payment Date. Any amounts remaining in the Revenue Fund after such payments described above are made are deemed Surplus Indenture Revenues.

Surplus Indenture Revenues (with certain exceptions) are transferred to the Surplus Revenues Account of the Revenue Fund. If the Department has satisfied the requirements in clause (iii) of the second paragraph below, amounts in the Surplus Revenues Account are transferred on or before each Interest Payment Date or redemption date for the Junior Lien Bonds to the trustee under the Junior Lien Trust Indenture to the extent such amounts are needed to pay amounts due on the Junior Lien Bonds, to pay fees and expenses associated with the Junior Lien Bonds and to restore reserves and other accounts for such Junior Lien Bonds.

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

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

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

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

## **Debt Service Fund -- Interest Account; Principal Account; 2004 Swap Agreement Periodic Payment Account; Redemption Account**

The Trustee is required to pay out of the Interest Account by each Interest Payment Date the amount required for the interest payment on such date. The Trustee is required to pay out of the Principal Account by each principal installment due date, the amount required for the principal installment payable on such due date. By the redemption date for any Bonds, the Trustee is required to pay out of the Interest Account the amount required for the payment of interest on the Bonds to be redeemed. The Trustee is required to pay the Swap Agreement Periodic Payment out of the 2004 Swap Agreement Periodic Payment Account on each Interest Payment Date.

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

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

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

### **Debt Service Reserve Account**

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

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

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

### **Special Mortgage Loan Fund**

As a result of the issuance of the Series 1996 A/B/C Bonds, the Series 1996 D/E Bonds, the Series 1997 D/E/F Bonds and the Series 2004 Bonds, the Trust Indenture establishes the Special Mortgage Loan Fund as a separate fund pledged (unless withdrawn as provided by the next paragraph) to and available for payment of Debt Service on the Bonds. In the event of any shortfall in funds available to pay any Debt Service on the Bonds, the Depository shall, upon the request of the Trustee, transfer to the Trustee from the Special Mortgage Loan Fund any amount necessary to provide sufficient funds to pay the amount then due and owing.

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

### **Withdrawals from Funds to Pay Debt Service**

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

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

### **Investments**

Moneys held in the Mortgage Loan Fund, the Revenue Fund and the Debt Service Fund are required to be invested and reinvested by the Trustee or by any Depository holding all or a portion of the moneys in such Funds, in accordance with instructions from the Department and moneys held in the Expense Fund are required to be invested and reinvested by the Department or by any Depository holding all or a portion of the moneys



in such Fund, in accordance with instructions from the Department, to the fullest extent practicable and if permitted by the Act, in Investment Securities (or certificates of deposit or time deposits) the principal of which the Department estimates will be received not later than such times as will be necessary to provide moneys when needed for payments to be made from each such Fund. See "TEXAS TREASURY SAFEKEEPING TRUST COMPANY."

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

### **Other Department Covenants**

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

### **Restrictions and Covenants as to Arbitrage Bonds**

The Department covenants to make such use of the proceeds of the Bonds and Revenues, regulate investments of proceeds of the Bonds and Revenues, and take such other and further action as may be required so that the Bonds (other than any taxable bonds) will not be "arbitrage bonds" under Section 148(a) of the Code and the regulations prescribed from time to time thereunder. In particular, the Department reserves the right to direct the Trustee to make specific investments to ensure compliance with the arbitrage restrictions set forth in the 2004 Supplemental Indenture.

### **Events of Default**

Each of the following events is an "Event of Default" under the Trust Indenture: (i) default in the due and punctual payment of the principal or Redemption Price of any Bond when due; (ii) default in the due and punctual payment of any installment of interest on any Bond or any sinking fund installment when due and the continuance of such default for a period of 30 days; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Trust Indenture or in the Bonds, and the continuance of such default for a period of 60 days after written notice thereof to the Department by the Trustee or to the Department and to the Trustee by the owners of not less than ten percent (10%) in principal amount of the Bonds Outstanding; or (iv) the commencement of various proceedings involving the Department

in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, state or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the Department or for all or a substantial part of its property, and unless commenced by or consented to by the Department, their continuation for 90 days undischarged or undischarged.

### **Bondholders' Rights in the Event of Default**

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

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

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

### **Application of Proceeds**

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

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

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

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

(c) to the payment of Swap Agreement Termination Payments but only to the extent that the amount available shall be sufficient to pay the principal or redemption price of and interest on any Junior Lien Bonds then due and payable prior to the payment of any amount in satisfaction of Swap Agreement Termination Payments; and

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

## **Trustee**

J.P. Morgan Trust Company, National Association, a national banking association having a corporate trust office located in Fort Worth, Texas, will continue to serve as the Trustee for the Bonds issued under the Trust Indenture, including the Series 2004 Bonds.

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

## **Supplemental Indentures without Consent of Bondholders**

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture of the Department may be adopted, which, upon filing with the Trustee a copy thereof, certified by an authorized officer of the Department, shall be fully effective in accordance with its terms: (i) to authorize Bonds of a series and to specify the matters relative to such Bonds which are not contrary to or inconsistent with the Trust Indenture; (ii) to close the Trust Indenture against, or provide limitations on, the delivery of Bonds; (iii) to add to the covenants of the Department in the Trust Indenture; (iv) to add to the restrictions in the Trust Indenture other restrictions to be observed by the Department which are not inconsistent with the Trust Indenture; (v) to confirm the subjection to any lien or pledge created by the Trust Indenture of the Trust Estate

or any other moneys; (vi) to modify any of the provisions of the Trust Indenture in any other respect, effective only after all Bonds of any series Outstanding at the date of the adoption of such supplemental indenture shall cease to be Outstanding; (vii) to amend the Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; or (viii) to surrender any right conferred upon the Department by the terms of the Trust Indenture, provided that the surrender of such right is not inconsistent with the covenants of the Department contained in the Trust Indenture.

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

### **Amendment of Indenture with Consent of Bondholders**

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

### **Defeasance**

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

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

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

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

### **Depositories**

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

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

### **TEXAS TREASURY SAFEKEEPING TRUST COMPANY**

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

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

## TAX MATTERS

### Tax Exemption

The Premium PAC Term Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Premium PAC Term Bond over its stated redemption price at maturity constitutes original issue premium on such Premium PAC Term Bond. An initial purchaser of a Premium PAC Term Bond must amortize any premium in accordance with the provisions of Section 171 of the code. Purchasers of the Premium PAC Term Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning a Premium PAC Term Bond.

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest of the Series C/E Bond and, prior to the first change of interest rate modes for which an opinion of nationally recognized bond counsel is required, interest on the Series D Bonds, is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 2004 Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 2004 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include the various mortgage eligibility, arbitrage, targeted area, recapture, use of proceeds and information reporting requirements discussed more fully below under the caption "Federal Income Tax Requirements." Bond Counsel's opinion will assume continuing compliance with the procedures, safeguards and covenants of the Master Servicer in the Trust Indenture and the Program Documents pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Series 2004 Bonds for federal income tax purposes, and in addition, will rely on representations by the Department, the Underwriters, the Master Servicer, and the Mortgage Lenders with respect to matters solely within the knowledge of the Department, the Underwriters, the Master Servicer, and the Mortgage Lenders, respectively, which representations Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the "Report") of Causey Demgen & Moore Inc., certified public accountants, regarding the mathematical accuracy of certain computations. If the Department, a Mortgage Lender, or the Master Servicer fails to comply with such procedures, safeguards and covenants or if such representations or the Report should be determined to be inaccurate or incomplete, interest on the respective issue of Series 2004 Bonds could become taxable from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is twenty six percent (26%) of so much of such taxable excess as does not exceed \$175,000 plus twenty eight percent (28%) of so much of such taxable excess as exceeds \$175,000. The Code also imposes a twenty percent (20%) alternative minimum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series 2004 Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2004 Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, acquisition, ownership or disposition of, the Series 2004 Bonds. As described above under "THE SERIES 2004 BONDS," certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, Bond Counsel's opinions express no opinion regarding the excludability of interest on the Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, Bond Counsel will express no opinion on its ability to render the opinion required in connection with such changes.

Prospective purchasers of the Series 2004 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 2004 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to its attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2004 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2004 Bonds could adversely affect the value and liquidity of the Series 2004 Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

## **Federal Income Tax Requirements**

### ***General***

Sections 103 and 143 of the Code and applicable regulations thereunder provide that the interest on bonds the proceeds of which are used directly or indirectly to finance owner-occupied residences, will not be excludable from gross income for federal income tax purposes unless such bonds (i) are "qualified mortgage bonds;" (ii) are issued in fully registered form; (iii) are not "federally guaranteed" and (iv) are not "arbitrage bonds" within the meaning of the Code. "Qualified mortgage bonds" are bonds that are part of an issue meeting the following requirements: (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve fund) are to be used to finance owner-occupied residences with mortgages that satisfy certain mortgage eligibility requirements, as set forth more fully below under the subheading "Mortgage Eligibility Requirements;" (ii) a specified portion of the lendable proceeds of such issue must be made available for a minimum period of time for owner financing of residences located within certain targeted areas, as described more fully below under the subheading "Targeted Area Requirement;" (iii) certain arbitrage limitations described more fully below under the subheading "Requirements Related to Arbitrage" must be satisfied; (iv)

certain reporting requirement as set forth more fully below under the subheading "Reporting Requirements" must be satisfied; and (v) certain requirements for informing mortgagors regarding the recapture of a portion of the proceeds from the disposition of certain residences as described more fully below under the subheading "Recapture Requirements" must be satisfied.

In addition, to be "qualified mortgage bonds," the costs of issuance financed by an issue of bonds cannot exceed two percent (2%) of the proceeds of such issue. Further, the amount of such an issue of bonds, other than certain refunding bonds, when added to the amount of all other private activity bonds issued within the State during calendar year 2004 must not exceed the unified volume cap for private activity bonds imposed by the Code and applicable regulations. An allocation of the unified volume cap is not required for refunding bonds if the maturity date of the refunding bond is not later than the date 32 years after the date on which the refunded bond was issued (or in the case of a series of refundings, the date on which the original bond was issued) and to the extent that the amount of such refunding bond does not exceed the outstanding amount of the refunded bond.

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

### ***Mortgage Eligibility Requirements***

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

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

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

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

Purchase Price Limitations. The Code requires that the purchase price of the residence may not exceed ninety percent (90%) of the average area purchase price applicable to such residence, or, in the case of residences in certain targeted areas, one hundred ten percent (110%) of the applicable average area purchase price. The Internal Revenue Service has published "safe harbor rules" identifying purchase price limitations



in the State that are considered to be in compliance with the requirements of the Code. The Department has determined to rely on the safe harbor figures for purposes of the Bonds.

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

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

### ***Targeted Area Requirement***

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

### ***Requirements Related to Arbitrage***

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

The Code also requires the issuer to pay to the United States Treasury certain investment earnings on non-mortgage investments, to the extent that such investment earnings exceed the amount that would have been earned on such investments if the investments were earning a return equal to the yield on the Series 2004 Bonds to which such non-mortgage investments relate.

### ***Reporting Requirements***

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

### ***Redemption Requirements***

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

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

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

### ***Recapture Requirements***

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

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

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

### ***Compliance with Tax Requirements***

The Code provides that the arbitrage and certain other requirements are deemed to be met if the issuer attempts in good faith to meet such requirements and any failure to meet such requirements is due to inadvertent error. With respect to the mortgage eligibility requirements, however, the Code provides that such requirements are deemed to be met only if: (i) the issuer attempts in good faith to meet such requirements by establishing reasonable procedures and making reasonable investigations before the mortgage loans were executed; (ii) at least ninety-five percent (95%) of the mortgages, by aggregate principal amount, meet all the mortgage eligibility requirements at the time of execution or assumption; and (iii) any failure to meet such requirements is corrected within a reasonable period of time after such failure is discovered. In determining whether or not ninety-five percent (95%) of the mortgage loans satisfy the mortgage eligibility requirements, the issuer is entitled to rely upon affidavits of the mortgagors and sellers of residences financed with the mortgage loans and upon federal income tax returns of the mortgagors, even if the relevant information in such affidavits and

returns ultimately proves to be false, unless the issuer knows or has reason to know that such information is false.

The Department has covenanted in the Trust Indenture and the Mortgage Lenders and the Master Servicer have covenanted in the Program Documents to comply with the above-described requirements of the Code as applied to the Series 2004 Bonds and to establish and follow procedures and safeguards sufficient to ensure compliance with such requirements. Nevertheless, if the Department, a Mortgage Lender, or the Master Servicer should fail to comply with such covenants, interest on the Series 2004 Bonds could become includable in gross income for federal income tax purposes from the date of issuance thereof, regardless of the date on which the event causing such includability occurs.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Continuing Disclosure Agreement, dated as of October 1, 2004 (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 2004 Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2004 Bonds. Under the Disclosure Agreement, the Department will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from said vendors.

No Eligible Borrower is an "obligated person" (as defined in Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC")) for whom financial information or operating data would be presented in the final Official Statement relating to the Series 2004 Bonds had such Eligible Borrower been known at the time of the offering of the Series 2004 Bonds.

### **Annual Reports**

The Department will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Department of the general type included in this Official Statement under the headings "APPENDIX D-1 -- AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS FOR THE FISCAL YEARS ENDED AUGUST 31, 2003 and 2002" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), "APPENDIX F-1 -- THE DEPARTMENT'S MORTGAGE LOAN PORTFOLIO," and "APPENDIX F-2 -- OTHER INDEBTEDNESS OF THE DEPARTMENT." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 2004. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

described in APPENDIX D-1 or such other accounting principles as the Department may be required to employ from time to time pursuant to state law or regulation.

The Department's current Fiscal Year ends on August 31. Accordingly, it will be required to provide updated information by February 28 in the year 2005 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 2004 Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on Debt Service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004 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 2004 Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its Agreement described above under "Annual Reports". The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

### **Availability of Information from NRMSIRs and SID**

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

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

### **Limitations and Amendments**

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2004 Bonds at any future date. The Department disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement or from any statement made pursuant to the Disclosure Agreement, although holders of Series 2004 Bonds may seek a writ of mandamus to compel the Department to comply with its Agreement.

The Agreement may be amended by the Department and the Trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Department, but only if (1) the provisions, as so amended,

would have permitted an underwriter to purchase or sell any Series 2004 Bonds in the primary offering of the Series 2004 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 2004 Bonds consent to such amendment or (b) a person that is unaffiliated with the Department (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Holders and beneficial owners of the Series 2004 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 2004 Bonds in the primary offering of such Series 2004 Bonds.

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

#### **Duties, Immunities and Liabilities of Trustee**

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

#### **Compliance with Prior Continuing Disclosure Agreements**

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

### **RATINGS**

Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") have assigned ratings to the Series C/E Bonds of "AAA" and "Aaa", respectively and have assigned ratings to the Series D Bonds of "AAA/A-1+" and "Aaa/VMIG 1", respectively. The ratings of S&P and Moody's are each based upon the issuance by Financial Security Assurance of its financial guaranty insurance policy and delivery by the Bank of the Liquidity Facility. The ratings on the Series C/E Bonds unenhanced by a financial guaranty insurance policy are "A+" and "Aa1" from S&P and Moody's, respectively. The ratings on the Series D Bonds unenhanced by a financial guaranty insurance policy are "A+/A-1" and "Aa1/VMIG 1" from S&P and Moody's, respectively. No application for a rating was made to any other rating agency.

An explanation of the significance of such ratings may be obtained from the companies furnishing such ratings. The ratings are not a recommendation to buy, sell or hold any Series 2004 Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of such ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either

or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2004 Bonds.

## **UNDERWRITING**

The Series C/E Bonds (except for the Series C/E Bonds that are designated with the term "Not Reoffered" on the inside cover page herein (the "Placed C/E Bonds"), which are being placed directly with Fannie Mae) are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters have jointly and severally agreed, pursuant to Bond Purchase Agreements (together with the Series D Bond Purchase Agreement (as defined below), the "Bond Purchase Agreement"), to purchase all of the Series C/E Bonds other than the Placed Bonds (collectively, the "Underwritten C/E Bonds") at a total purchase price of \$46,287,700. The Placed C/E Bonds are being sold directly to Fannie Mae pursuant to the Bond Purchase Agreement at a price equal to the principal amount of \$6,685,000. The Series D Bonds are being purchased from the Department solely by Piper Jaffray & Co. ("Piper") pursuant to a Bond Purchase Agreement (the "Series D Bond Purchase Agreement"), at a total purchase price equal to the principal amount thereof. The Underwriters will receive a fee (which includes a placement fee with respect to the Placed Bonds) of \$394,191 in connection with the Series C/E Bonds. Piper will receive a fee of \$91,292 in connection with the Series D Bonds. The Bond Purchase Agreement provides, among other things, that the Underwriters' obligations to make such purchase are subject to certain terms and conditions set forth in such Bond Purchase Agreement, including the approval of certain legal matters by their counsel and certain other conditions. The initial public offering prices of the Underwritten Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Underwritten Bonds offered to the public to certain dealers (including dealers depositing the Underwritten Bonds into unit investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) and others at prices other than the public offering prices stated on the inside front cover hereof.

## **FINANCIAL ADVISOR**

RBC Dain Rauscher Inc. (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 2004 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. The Department has also employed the Financial Advisor as a swap financial advisor in connection with the execution of the Swap Agreement.

## **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, 2003 and 2002 included in this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Deloitte & Touche LLP.

The unaudited interim financial statements of the Department for the 10-month period ended June 30, 2004 are included in Appendix D-2 to this Official Statement.

THE SERIES 2004 BONDS ARE SECURED ONLY BY THE ASSETS AND REVENUES DESCRIBED UNDER THE CAPTION "SECURITY FOR THE BONDS" AND NOT BY ANY OTHER SOURCE.

### **LITIGATION MATTERS**

The Department is expected to deliver a certificate upon the closing and delivery of the Series 2004 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 2004 Bonds, or in any way contesting or affecting the validity of the Series 2004 Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 2004 Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 2004 Bonds or such pledge or application of moneys and security.

### **LEGALITY FOR INVESTMENT**

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

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

To the extent that the Series 2004 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 2004 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 2004 Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Department has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Series 2004 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 2004 Bonds for such purposes.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore, Inc., the verification agent, will verify the mathematical accuracy of the computations relating to the computation of yield on the Series 2004 Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 2004 Bonds is excludable from gross income for federal income tax purposes. Causey Demgen & Moore, Inc. will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 2004 Bonds.

## **APPROVAL OF LEGALITY**

Legal matters incident to the issuance of the Series 2004 Bonds are subject to the approving opinion of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters incident to the issuance of the Series 2004 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, Chris G. Wittmayer, 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, Andrews Kurth LLP.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2004 Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "THE SERIES 2004 BONDS" (but excluding the information contained therein under the subheadings "Redemption Provisions - Redemption Amounts and Prepayment Standard" and "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the subheadings "The Prior Bonds", "Junior Lien Bonds," "Prior Mortgage Loans and Mortgage Certificates" and "Certain Information as to Revenues, Investments, Debt Service and Department Expenses"), "THE PROGRAM AND THE MORTGAGE LOANS (but excluding information set forth under the headings "Community Home Buyer's Program," "Servicing" and "The Master Servicers")", "THE TRUST INDENTURE," "TEXAS TREASURY SAFEKEEPING TRUST COMPANY," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A, and APPENDIX E, to this Official Statement, solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Act, the laws of the State of Texas, the Trust Indenture and the Series 2004 Bonds and the federal tax implications with respect to the Series 2004 Bonds. Bond Counsel was not requested to participate and did not take part in the preparation of any other information contained herein and did not assume responsibility with respect thereto or undertake independently to verify the accuracy of any of such information. Except as set forth above, Bond Counsel does not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon such firm's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

## **ADDITIONAL INFORMATION**

Certain provisions of the Act and the Trust Indenture are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. The information contained above is subject to change without notice and no implication is to be derived therefrom or from the sale of the Series 2004 Bonds that there has been no change in the affairs of the Department from the date hereof.



This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Department and the purchasers or owners of any of the Series 2004 Bonds.

TEXAS DEPARTMENT OF HOUSING AND  
COMMUNITY AFFAIRS

By: /s/ Elizabeth Anderson  
Chair and Member  
Governing Board

By: /s/ Edwina P. Carrington  
Executive Director

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## APPENDIX A

### GLOSSARY

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

"Account" or "Accounts" shall mean any one or more, as the case may be, of the separate special trust accounts created and established within the Funds created and established under the Trust Indenture and the 2004 Supplemental Indenture.

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

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

"Alternate Rate" shall mean, with respect to each Series D Bond, the interest on the Series D Bonds as described under the caption "THE SERIES 2004 BONDS – Establishment of an Alternate Rate."

"Alternate Rate Period" shall mean each period during which an Alternate Rate is in effect.

"Authorized Denominations," shall mean, (i) with respect to any Long-Term Interest Rate Period and the Series C/E Bonds, \$5,000 and any whole multiple thereof, and (ii) with respect to any Short-Term Interest Rate Period, Daily Interest Rate Period or Weekly Interest Rate Period, \$100,000 and any whole multiple of \$5,000 in excess of \$100,000.

"Bank" shall mean, with respect to the Series D Bonds, initially DEPPFA BANK plc, acting by and through its New York Branch, in its capacity as a party to the Liquidity Facility for the Series D Bonds, until a Substitute Liquidity Facility for the Series D Bonds is executed and delivered and is effective in accordance with the Thirty-Ninth Supplemental Indenture, and thereafter "Bank" shall also mean the obligor or obligors under such Substitute Liquidity Facility for the Series D Bonds. Any reference to the Bank in any provision herein shall mean the obligor or obligors under the Liquidity Facility.

"Bank Bond Interest Rate" shall mean, with respect to the Series D Bonds, the Bank Bond Interest Rate as defined in the Liquidity Facility or the equivalent rate charged by the Bank in any Substitute Liquidity Facility for the Series D Bonds; provided, however, that the Bank Bond Interest Rate for the Series D Bonds shall not exceed the Maximum Rate.

"BMA Swap Index Rate" shall mean The Bond Market Association Municipal Swap Index, produced by Municipal Market Data to be an index of 7-day high grade tax-exempt variable rate demand obligations as announced from time to time by The Bond Market Association (or any successor index produced by or on behalf of The Bond Market Association). Any change in the BMA Swap Index Rate shall become effective as of the date the change is announced by The Bond Market Association. If The Bond Market Association does not publish The Bond Market Association Municipal Swap Index, then "BMA Swap Index Rate" shall be the alternative interest rate index designated by the Department to the Trustee and agreed to by the Bond Insurer.

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

"Bond Counsel" shall mean a firm or firms of attorneys selected by the Department, and acceptable to the Trustee, experienced in the field of housing revenue bonds the interest on which is excludable from gross

income for federal income tax purposes, and whose legal opinion on such bonds is acceptable in national bond markets.

"Bond Depository" shall mean The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, and any successor Bond Depository appointed pursuant to the 2004 Supplemental Indenture.

"Bond Insurer" shall mean Financial Security Assurance Inc., a New York Stock insurance company, or any successor thereto or assignee thereof.

"Bond Interest Term" shall mean each period established in accordance with the Thirty-Ninth Supplemental Indenture as described under the caption "THE SERIES 2004 BONDS – Interest Rates – Short-Term Interest Rate Period" during which such Series 2004 Bond shall bear interest at a Bond Interest Term Rate.

"Bond Interest Term Rate" shall mean, with respect to each Series D Bond, a non-variable interest rate on such Series D Bond established periodically as described under the caption "THE SERIES 2004 BONDS – Interest Rates – Short-Term Interest Rate Period."

"Bond Purchase Agreement" shall mean the Bond Purchase Agreements providing for the initial purchase of the Series 2004 Bonds by the Underwriters.

"Bond Year" shall mean each twelve-month period ending August 31.

"Bondholder" or "Holder" shall mean the bearer of any coupon Bond not registered as to principal or registered as to principal to bearer, the registered owner of any Bond registered as to principal other than to bearer and the registered owner of any fully registered Bond as to both principal and interest.

"Bonds" shall mean any bond or bonds, as the case may be, authenticated and delivered pursuant to the Trust Indenture, including the Series 2004 Bonds, the Prior Bonds and any additional bonds.

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

"Certificate Purchase Period" shall mean, the period from February 1, 2005, to and including January 1, 2006, which may be shortened or extended.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with the corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Series 2004 Bonds.

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

"Conventional Mortgage Loan" shall mean a Mortgage Loan which is not federally guaranteed or insured and which complies with the provisions of the Trust Indenture.

"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.

"Daily Interest Rate" shall mean, with respect to each Series D Bond, a variable interest rate on the Series D Bonds as described under the caption "THE SERIES 2004 BONDS – Interest Rates – Daily Interest Rate Period."

"Daily Interest Rate Period" shall mean each period during which a Daily Interest Rate is in effect for the Series D Bonds.

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

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

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

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

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

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

"Eligible Borrowers" shall mean persons that meet the requirements set forth in the caption "THE PROGRAM AND THE MORTGAGE LOANS -- Eligible Borrowers."

"Escrow Bonds" shall mean any Series D Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility until such Series D Bonds are remarketed as provided in the Tender Agreement.

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

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

"Favorable Opinion of Bond Counsel" shall mean an opinion of Bond Counsel, addressed to the Department, the Paying Agent, the Bond Insurer, the Trustee, the Tender Agent, the Remarketing Agent and the Bank to the effect that the action proposed to be taken is authorized or permitted by the laws of the State, the Trust Indenture and the Thirty-Ninth Supplemental Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes, of interest paid or payable on the Series D Bonds.

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

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

"FHA Mortgage Loan" shall mean a Mortgage Loan insured by FHA under the provisions of the National Housing Act, as amended, and which complies with the Trust Indenture.

"Fortieth Supplemental Indenture" shall mean the Fortieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, by and between the Department and J.P. Morgan Trust Company, National Association, as trustee, pursuant to which the issuance of the Series E Bonds is authorized.

"Forty-First Supplemental Indenture" shall mean the Forty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, by and between the Department and J.P. Morgan Trust Company, National Association, as trustee, pursuant to which the issuance of the Series F Bonds is authorized.

"Freddie Mac" shall mean Freddie Mac, a corporation organized and existing under the laws of the United States of America.

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

"FSA" shall mean Financial Security Assurance Inc., a New York Stock insurance company.

"Fund" shall mean the Mortgage Loan Fund, the Expense Fund, the Revenue Fund, the Debt Service Fund and the Special Mortgage Loan Fund.

"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.

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

"Ginnie Mae Guide" shall mean the Ginnie Mae II Mortgage-Backed Securities Guide (Ginnie Mae 5500.2), as amended and supplemented from time to time.

"Ginnie Mae Issuer" shall mean any issuer of Ginnie Mae Certificates backed by Ginnie Mae Mortgage Loans.

"Ginnie Mae Mortgage Loans" shall mean the Mortgage Loans constituting part of a Mortgage Pool backing a Ginnie Mae Certificate.

"Ginnie Mae Paying Agent" shall mean JPMorgan Chase Bank, New York, New York, in its capacity as the central transfer and paying agent pursuant to the Ginnie Mae Guide, or its successors or assigns.

"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.

"Immediate Liquidity Termination" shall mean a termination of the Liquidity Facility for the Series D Bonds before its expiration date pursuant to provisions in such Liquidity Facility that allow the Bank to terminate its obligation to purchase the Series D Bonds immediately upon the occurrence of certain events set forth therein without giving any advance notice to the Department.

"Interest Accrual Date" shall mean, (a) with respect to any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date, and (b) with respect to each Daily Interest Rate Period, Weekly Interest Rate Period or Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

"Interest Payment Date" shall mean, (1) with respect to any Daily Interest Rate Period or Weekly Interest Rate Period, as described under the caption "THE SERIES 2004 BONDS – Interest Rates," (2) with respect to any Long-Term Interest Rate Period and the Series C/E Bonds, each March 1 and September 1, or, if any such March 1 or September 1 shall not be a Business Day, the next succeeding Business Day commencing March 1, 2005, (3) with respect to any Bond Interest Term, the day next succeeding the last day thereof, and (4) with respect to each Interest Rate Period, the day next succeeding the last day thereof. Notwithstanding the foregoing, "Interest Payment Date" shall mean, with respect to Escrow Bonds, any date on which interest is required to be paid pursuant to the Liquidity Facility.

"Interest Rate Period" shall mean any Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or Alternate Rate Period.

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

- (a) obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States of America ("Government Obligations");
- (b) FHA debentures which must not be redeemable prior to their stated maturity;
- (c) obligations of the Federal Home Loan Mortgage Corporation (including only securities guaranteed as to timely payment of principal and interest);
- (d) obligations of the Farm Credit System;
- (e) obligations of Federal Home Loan Banks;
- (f) obligations of Fannie Mae (excluding interest-only and principal-only stripped securities);
- (g) obligations of the Student Loan Marketing Association ("SLMA") excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call dates;
- (h) obligations of Resolution Funding Corporation ("REFCORP");
- (i) federal funds, unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities of not more than 365 days) of any bank the short-term obligations of which are rated in the highest applicable rating category by the Rating Agency;
- (j) deposits which are fully insured by the FDIC (including deposits with the Trustee or an affiliate of the Trustee);
- (k) debt obligations of a state or municipality rated in the highest applicable rating category by the Rating Agency (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);
- (l) commercial paper having maturities not in excess of one year rated in the highest applicable category by the Rating Agency;
- (m) investment in money market funds registered under the 1940 Act and whose shares are registered under the 1933 Act rated in the highest applicable rating category by the Rating Agency;
- (n) repurchase agreements with any transferor with long-term unsecured debt rated in the highest applicable rating category or commercial paper rated in the highest applicable rating category by the Rating Agency;
- (o) U.S. Treasury STRIPS, REFCORP STRIPS (stripped by the Federal Reserve Bank of New York) and any stripped securities assessed or rated in the highest applicable rating category by the Rating Agency;
- (p) investment agreements secured or unsecured as required by the Department with or guaranteed by any Person whose long-term unsecured general indebtedness is at the date of execution of such agreement rated by the Rating Agency in the highest category for long-term obligations or, if the term of such investment agreement does not exceed one year, whose short term unsecured general indebtedness is at the date of execution of such agreement rated by the Rating Agency in the highest category for short-term obligations (A+ if the Rating Agency is then S&P);



(q) any other investment which in Counsel's Opinion is at the time permitted by then applicable law for the investment of the Department's funds and to the extent such investments are rated by a Rating Agency in its highest rating category;

(r) any pooled or common trust fund containing only securities described in the foregoing clauses (a) through (i), including, without limitation, the One Group U.S. Treasury Only Money Market Fund or comparable cash management fund of J.P. Morgan Trust Company, National Association or an affiliate of J.P. Morgan Trust Company, National Association, rated by the Rating Agency in its highest applicable rating category;

(s) obligations the interest on which is excludable from gross income under Section 103(a) of the Code; provided that such obligations are rated by the Rating Agency in its highest rating category;

(t) United States Treasury Securities - State and Local Government Series; and

(u) investment securities described in any Supplemental Indenture for the related series of Bonds the inclusion of which in the definition of Investment Securities for purposes of the Indenture will not, in and of itself, adversely affect any rating then assigned to the Bonds by the Rating Agency, as evidenced by a letter from the Rating Agency (determined without regard to the Credit Facility).

"Issuance Date" shall mean the date of initial issuance and delivery of the Series 2004 Bonds to the Underwriters in exchange for payment of the purchase price of such Series 2004 Bonds.

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

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

"Letter of Instructions" shall mean, with respect to the Series 2004 Bonds, a written directive and authorization to the Trustee or any depository specifying the period of time for which such directive and authorization shall remain in effect, executed by two authorized officers of the Department.

"Liquidity Facility" shall mean the Standby Bond Purchase Agreement, dated as of October 1, 2004, by and among the Department, the Tender Agent and the Bank for the Series D Bonds and, if the Department has determined to provide its own liquidity support for the Series D Bonds, shall mean the Department.

"Long-Term Interest Rate" shall mean, with respect to each Series D Bond, a non-variable interest rate on such Series D Bond as described under the caption "THE SERIES 2004 BONDS – Interest Rates – Long-Term Interest Rate Period."

"Long-Term Interest Rate Period" shall mean each period during which a Long-Term Interest Rate is in effect for the Series D Bonds, which shall be a period of at least 181 days.

"Master Indenture" shall mean the Agency's Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, pursuant to which the Bonds of each Series are authorized to be issued.

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

"Maximum Rate" shall mean the maximum net effective interest rate permitted by applicable law to be charged or collected on the Series 2004 Bonds, such rate currently being 15% per annum.

"Mortgage" shall mean any mortgage or deed of trust securing a Mortgage Loan.

"Mortgage Certificate" shall mean a Ginnie Mae Certificate, a Freddie MAC Certificate or a Fannie Mae Certificate that evidences beneficial ownership of and a one hundred percent (100%) participation in a Mortgage Pool.

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

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

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

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

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

"Mortgage Loan Principal Prepayment" shall mean any moneys received or recovered by the Department from any payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan) on any Mortgage Loan other than the scheduled payments of principal called for by such Mortgage Loan, whether (i) by voluntary prepayment made by the mortgagor or (ii) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof (other than insurance moneys received or

recovered and used in accordance with the provisions of the Trust Indenture to repair or reconstruct the mortgaged premises which were the subject of insurance proceeds) or (iii) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department or (iv) in the event of a default thereon by the mortgagor, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department or by any other proceedings taken by the Department or (v) from any special hazard insurance policy or standard hazard insurance policy covering mortgaged premises or (vi) from any mortgage insurance, including a private mortgage insurance policy and a mortgage pool insurance policy, or (vii) from any proceeds received from the United States of America or any instrumentality thereof in respect of any insurance or guaranty of a Mortgage Loan.

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

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

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

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

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

(iii) Bonds deemed to have been paid as provided in the Trust Indenture.

"Pass-Through Rate" shall mean, initially, 4.49%.

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

"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 home-rule charter, and any partnership, association, firm, trust, estate, or any other entity whatsoever.

"Policy Payments Account" shall mean the 2004 C/D/E Policy Payments Account held by the Trustee into which payments from claims on the bond insurance policy will be deposited until disbursed.

"Premium PAC Term Bond Applicable Amount" shall mean the amounts on the corresponding dates set forth in clause (a) under "THE SERIES 2004 BONDS -- Redemption Provisions -- Special Redemption From Mortgage Loan Principal Prepayments -- Mortgage Loan Principal Prepayments Relating to 2004 Mortgage Certificates."

"Primary Custodial Account" shall mean the account established by the Ginnie Mae Issuer with a depository institution which is a member of an automated clearing house (or a correspondent of such institution) into which the principal and interest payment on Ginnie Mae Mortgage Loans are deposited for payment to the Ginnie Mae Paying Agent at the times specified in the Ginnie Mae Guide.

"Principal Office" shall mean, with respect to the Tender Agent, the Paying Agent or the Remarketing Agent, the address for such party set forth in the 2004 Supplemental Indenture, as such address may be changed from time to time.

"Program" shall mean the Department's Single Family Mortgage Revenue Bond Program, including that certain program designated as Texas Department of Housing and Community Affairs Bond Program No. 62, as set forth and implemented through the Program Documents.

"Program Documents" shall mean the Mortgage Origination Agreement relating to Bond Program No.62, dated as of October 1, 2004, by and between the Department and Mortgage Lender, the Compliance Agreement relating to Bond Program No. 62, dated as of October 1, 2004, by and between the Department and Countrywide Home Loans, Inc., the Program Administration and Servicing Agreement relating to Bond Program No. 62, dated as of October 1, 2004, by and among the Department, the Trustee and Countrywide Home Loans, Inc., the Funding Agreement, dated the date of delivery of the Series 2004 Bonds, by and among Countrywide Home Loans, Inc., the Department and the Trustee, the Texas Department of Housing and Community Affairs Single Family Mortgage Purchase Program (TDHCA Bond Program No. 62) Program Guidelines, and the Program Supplement for the Department's Bond Program No. 62, dated as of October 1, 2004, by and between the Department and the Mortgage Lender.

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

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

"Rebate Account" shall mean the 2004 C/D/E Rebate Account of the Expense Fund established pursuant to the Trust Indenture.

"Rebate Amount" shall mean, with respect to the Series 2004 Bonds, that amount as of each respective Computation Date, within the meaning of Section 1.148-3(b) of the Regulations, and generally means the excess as of any date of the future value of all receipts on nonpurpose investments over the future value of all payments on nonpurpose investments, all as determined in accordance with Section 1.148-3 of the Regulations.

"Record Date," shall mean, (a) in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or any Bond Interest Term, the Business Day immediately preceding each Interest Payment Date, and (b) in respect of the Series D Bonds in a Long-Term Interest Rate Period, the fifteenth (15th) day of the month immediately preceding such Interest Payment Date or, in the event that such date shall occur prior to the first day of a Long-Term Interest Rate Period, then the Record Date shall be the first day of such Long-Term Interest Rate Period.

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

"Refunded Bonds" shall mean the Department's Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program), Series 1993A, Series 1993B, Series 1993C, Series 1993D, and Series 1993E.

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

"Remarketing Agent" shall mean Piper Jaffray & Co. as initial Remarketing Agent appointed for the Series D Bonds and any successor remarketing agent for the Series D Bonds appointed in accordance with the Thirty-Ninth Supplemental Indenture.

"Revenues" shall mean (i) all amounts paid or required to be paid with respect to principal and interest or otherwise from time to time on the Mortgage Loans, including Mortgage Loan Principal Payments, including any such amounts held by persons collecting such amounts on behalf of the Department, after deducting any fees required to be paid for accounting, collection and other services required in connection with servicing of the Mortgage Loans, (ii) all interest received on or profits derived from investing moneys or securities held pursuant to the Trust Indenture and paid or to be paid into the Revenue Fund and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee under the Trust Indenture as part of the Trust Estate to the extent so pledged under the Supplemental Indenture, including all amounts paid or required to be paid from time to time on the 2004 Mortgage Certificates, including any payment received from Ginnie Mae, Freddie Mac or Fannie Mae pursuant to their respective guaranties of the Ginnie Mae Certificates, Freddie Mac Certificates or Fannie Mae Certificates (as applicable), all Mortgage Loan Principal Prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respects of the 2004 Mortgage Certificates and all other net proceeds of such 2004 Mortgage Certificates. Revenues shall not include fees paid to Mortgage Lenders to service Mortgage Loans or payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans and any payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed on Mortgage Loans or commitment fees or other financing charges paid by a Mortgage Lender to the Department in connection with a commitment to sell and deliver Mortgage Loans to the Department.

"Series C Bonds" shall mean the Department's Single Family Mortgage Revenue Bonds, 2004 Series C, to be issued under the Trust Indenture and the Thirty-Eighth Supplemental Indenture.

"Series D Bonds" shall mean the Department's Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D, to be issued under the Trust Indenture and the Thirty-Ninth Supplemental Indenture.

"Series E Bonds" shall mean the Department's Single Family Mortgage Revenue Refunding Bonds, 2004 Series E, to be issued under the Trust Indenture and the Fortieth Supplemental Indenture.

"Series F Bonds" shall mean the Department's Single Family Mortgage Revenue Bonds, 2004 Series F, to be issued under the Trust Indenture and the Forty-First Supplemental Indenture.

"Series 2004 Bonds" shall mean, collectively, the Series C Bonds, Series D Bonds, and Series E Bonds.

"Servicing Agreement" shall mean the Program Administration and Servicing Agreement, dated as of October 1, 2004, by and among the Department, the Trustee and the Master Servicer, together with any amendments thereto.

"Short-Term Interest Rate Period" shall mean each period, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect for the Series D Bonds.

"State" shall mean the State of Texas.

"Substitute Liquidity Facility" shall mean, with respect to the Series D Bonds, a liquidity facility for such Series D Bonds meeting the requirements set forth in the Thirty-Ninth Supplemental Indenture. Any reference to a Substitute Liquidity Facility herein shall mean the Department if the Department has determined to provide its own liquidity support for the Series D Bonds pursuant to Thirty-Ninth Supplemental Indenture.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Trust Indenture, adopted by the Department in accordance with the Master Indenture.

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

"Suspension Event" shall mean the occurrence of a default or event of default which results in the suspension of the obligation of the Bank to purchase Series D Bonds under the Liquidity Facility.

"Swap Agreement" shall mean the interest rate swap agreement entered by the Department with the Swap Provider, pursuant to which the Department and the Swap Provider agree to make payments thereunder with respect to a notional amount corresponding to the outstanding principal amount of Series D Bonds for the purpose of effectively converting the interest rate on the Series D Bonds to a fixed interest rate.

"Swap Agreement Periodic Payment" shall mean any payment required to be paid by the Department under the Swap Agreement, other than a Swap Agreement Termination Payment.

"Swap Agreement Periodic Receipt" shall mean any payment required to be paid to the Department under a Swap Agreement, other than a Swap Agreement Termination Receipt.

"Swap Agreement Termination Payment" shall mean any payment required to be paid by the Department under a Swap Agreement in connection with the termination of the Swap Agreement, whether voluntarily or upon the occurrence of an event of default or similar event thereunder.

"Swap Agreement Termination Receipt" shall mean any payment required to be paid to the Department under a Swap Agreement in connection with the termination of the Swap Agreement, whether voluntarily or upon the occurrence of an event of default or similar event thereunder.

"Swap Provider" shall mean any Person with which the Department enters into an interest rate swap agreement with respect to any Bonds issued pursuant to the Trust Indenture.

"Swap Termination Value Holdback" shall mean the amount, computed for each fiscal year of the Department as of October 1 of that fiscal year, subject to adjustment, equal to thirty-five percent (35%) of the greater of (a) the Swap Agreement Termination Payment, if any, that the Department would be required to pay on each Swap Agreement if each such Swap Agreement were terminated as of such October 1 and (b) the Swap Agreement Termination Payment the Department would be required to pay if the Swap Agreement was terminated as of such October 1 and the fixed rate payment under the Swap Agreement was computed at a rate that is 1.5% less than the fixed rate payment rate under the Swap Agreement, but in no event shall the Swap Termination Value Holdback with respect to the Swap Agreement exceed \$4,000,000.

"Tender Agent" shall mean the initial Tender Agent appointed for the Series D Bonds and any successor tender agent for the Series D Bonds appointed in accordance with the Thirty-Ninth Supplemental Indenture.

"Tender Agreement" shall mean the Tender Agent Agreement, dated as of October 1, 2004, among the Department, the Remarketing Agent and the initial Tender Agent, as such tender agreement may be amended or supplemented from time to time, and includes any tender agreement entered into between the Department and a successor Tender Agent for the Series D Bonds.

"Trust Indenture" shall mean the Single Family Mortgage Revenue Bond Trust Indenture of the Department, dated as of October 1, 1980, as amended by the Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of June 1, 1982, the Thirteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of February 1, 1988, the Fourteenth Supplemental Single Family

Mortgage Revenue Bond Trust Indenture dated as of August 1, 1991, the Fifteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of August 1, 1992, the Sixteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of May 1, 1994, the Seventeenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1995, the Twentieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1995, the Twenty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1996, the Twenty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1996, the Twenty-Sixth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Seventh Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Eighth Supplemental Single Family Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Ninth Supplemental Single Family Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirtieth Supplemental Single Family Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirty-First Supplemental Single Family Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirty-Second Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Third Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Fourth Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Fifth Supplemental Single Family Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Sixth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of April 1, 2004, and the Thirty Seventh Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of April 1, 2004, and as hereafter amended and supplemented, each between the Department and the Trustee.

"2004 C/D/E Capitalized Interest Subaccount" shall mean the 2004 C/D/E Capitalized Interest Subaccount of the 2004 C/D/E Revenue Account.

"2004 C/D/E Mortgage Loan Account " shall mean the 2004 C/D/E Mortgage Loan Account of the Mortgage Loan Fund.

"2004 C/D/E Redemption Subaccount" shall mean the 2004 C/D/E Redemption Subaccount of the Redemption Account of the Debt Service Fund.

"2004 C/D/E Revenue Account" shall mean the 2004 C/D/E Revenue Account of the Revenue Fund.

"2004 Mortgage Certificates" shall mean the Ginnie Mae Certificates, Freddie Mac Certificates or Fannie Mae Certificates that evidence beneficial ownership of and a one hundred percent (100%) participation in a Mortgage Pool and that satisfy the requirements of the Trust Indenture which are purchased by the Trustee from amounts available in the 2004 C/D/E Mortgage Loan Account and pledged by the Department to the Trustee pursuant to the Indenture and the 2004 Supplemental Indenture.

"2004 Mortgage Loans" shall mean the loans included in each Mortgage Pool represented by a 2004 Mortgage Certificate.

"2004 C/D/E Swap Agreement Periodic Payment Account" shall mean the 2004 C/D/E Swap Agreement Periodic Payment Account of the Debt Service Fund from which Swap Agreement Periodic Payments will be made.

"2004 C/D/E Swap Agreement Periodic Receipt Subaccount" shall mean the 2004 C/D/E Swap Agreement Periodic Receipt Subaccount of the Surplus Revenues Account of the Revenue Fund into which Swap Agreement Periodic Receipts will be deposited.

"2004 C/D/E Swap Agreement Termination Payment Subaccount" shall mean the 2004 C/D/E Swap Agreement Termination Payment Subaccount of the Surplus Revenues Account of the Revenue Fund from which Swap Agreement Termination Payments will be made.

"2004 C/D/E Swap Agreement Termination Receipt Subaccount" shall mean the 2004 C/D/E Swap Agreement Termination Receipt Subaccount of the Surplus Revenues Account of the Revenue Fund into which Swap Agreement Termination Receipts will be deposited.

"Underwriters" shall mean Piper Jaffray & Co. and the other underwriters named on the schedule attached to the Bond Purchase Agreement.

"VA" shall mean the United States of America Department of Veterans Affairs.

"VA Mortgage Loan" shall mean a Mortgage Loan guaranteed by the VA under the provisions of the Servicemen's Readjustment Act of 1944 or Chapter 37 of Title 38 of the United States Code, as amended, and which complies with the provisions of the Trust Indenture.

"Weekly Interest Rate" shall mean, with respect to each Series D Bond, a variable interest rate on the Series D Bonds as described under the caption "THE SERIES 2004 BONDS – Interest Rates – Weekly Interest Rate Period."

"Weekly Interest Rate Period" shall mean each period during which a Weekly Interest Rate is in effect for the Series D Bonds.

"Yield" shall mean, with respect to the Series 2004 Bonds, yield as determined in accordance with Sections 143(g) and 148(h) of the Code and Sections 6a.103A-2(i), 1.148-4 and 1.148-5 of the Regulations.



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

**Introduction**

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

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

**FHA Insurance Programs**

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

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

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

When entitlement to insurance benefit results from foreclosure (or other acquisition or possession) and conveyance, the insurance payment is computed as of the date of default by the borrower, as defined in HUD regulations, and the insured generally is not compensated for interest accrued and unpaid prior to that date.

When entitlement to insurance benefits results from assignment of the loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation of interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment itself bears interest from the date of default or, where applicable, assignment, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

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

### **Department of Veterans Affairs Mortgage Guaranty Program**

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

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

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

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

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

The Cranston-Gonzalez National Affordable Housing Act of 1990, authorized the establishment of RHS Guaranteed Rural Housing Loan Program. Households with annual incomes at or below one hundred fifteen percent (115%) of median area income are eligible for these loans, subject to the geographic restrictions

described below. Households with annual incomes at or below eighty percent (80%) of the area median income may be eligible for interest assistance, in addition to the loan guaranty. The interest assistance paid monthly by RHS to the loan servicer reduces the borrower's effective interest rate. The amount of interest rate reduction is dependent upon the households' annual income, which is re-certified by the loan servicer annually. No funds currently are available for interest assistance.

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

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

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

### **Private Mortgage Insurance Programs**

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

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

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

to the property and arranging for its sale, or of paying the insured percentage of the claim and allowing the insured mortgage lender to retain title to the property.

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

## **Mortgage Pool Insurance**

### *General*

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

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

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

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

Each mortgage pool insurance policy usually requires, as a condition to payment of a claim, that (i) all hazard insurance premiums, real estate taxes, property protection and preservation expenses, property sale expenses and foreclosure costs (including court costs and reasonable attorneys' fees) have been advanced by or on behalf of the Department, as approved by the insurer, (ii) the Department must have acquired good and merchantable title to the property, free and clear of all encumbrances, except permitted encumbrances, including any right of redemption by the mortgagor, and (iii) the Department must have sold the property with the approval of the insurer. In the event of default by the mortgagor, if there is any physical loss or damage to the property from any cause, whether by accidental means or otherwise, it is usually a condition to payment

that the insured restore the property to its condition at the time of the issuance of the policy, except for reasonable wear and tear. The mortgage pool insurance policies generally will not insure against a loss sustained by reason of a default arising from or involving certain matters including (i) fraud or negligence in origination or servicing of the Mortgage Loans, including misrepresentation by the Mortgage Lender, borrower or other persons involved in the origination or servicing of the Mortgage Loans; (ii) failure to construct a property subject to a Mortgage Loan in accordance with specified plans; or (iii) physical damage to a property.

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

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

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

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

Some insurers have delivered endorsements to certain mortgage pool insurance policies which provide that they will make advance claims payments in amounts equal to delinquent regular monthly payments of principal of and interest on each Mortgage Loan that is delinquent in three or more monthly payments after receipt of ten days prior written notice thereof. Such advance claims payments will generally be made only if the Mortgage Loan servicer has initiated foreclosure proceedings as required by the mortgage pool insurance policy and diligently pursues such proceedings. The insurer will continue to make such advance claims payments until the insured files, or should have filed, a claim with respect to the Mortgage Loan for which such payments have been made. Advance claims payments must be repaid after payments on the Mortgage Loan have been received (either from the mortgagor, FHA, VA, RHS, private mortgage insurance or through

foreclosure) for which advances were previously made or if a claim under the policy is not filed. Claim settlements under a mortgage pool insurance policy will usually be reduced by the sum of unreimbursed claims advances.

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

#### *Self-Insurance Program*

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

Although the amounts held in a Self-Insurance Fund are not part of the Trust Estate, the Department covenanted in the Trust Indenture to create and maintain each Self-Insurance Fund and to apply the moneys therein to pay advance payments and losses incurred in connection with Mortgage Loans acquired under the applicable phase of the Program. The Department is not obligated to fund a Self-Insurance Fund beyond the Required Fund Amount and the Department's obligation to contribute amounts into a Self-Insurance Fund up to the Required Fund Amount is limited to amounts available from investment earnings on the respective Self-

Insurance Fund and from Revenues in an amount equal to .15% per annum of the aggregate outstanding principal balance of the Mortgage Loans acquired under the applicable phase of the Program. No other assets or revenues of the Department are required to be contributed to the Self-Insurance Fund or applied to pay Advance Payments or Losses.

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

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

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

#### *Standard Hazard Insurance Policies*

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

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

Although policies relating to different Mortgage Loans may be issued by different insurance companies and, therefore, may have minor differences in coverage, the basic terms are dictated by State law. Policies typically exclude physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement (including earthquakes, landslides and mudflows), nuclear hazard and, in certain cases, vandalism.

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

## Foreclosure Laws

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

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

State courts have in the past strictly construed the power of sale created by deeds of trust or other lien instruments and, where both contractual and statutory provisions for nonjudicial foreclosure have not been precisely followed, have declared nonjudicial foreclosure sales to be invalid. In addition, although the State statute providing standards for nonjudicial foreclosures has previously survived challenges that it is unconstitutional, there can be no assurance that such a challenge in the future will not be successful. A foreclosure sale of property on which the United States claims a lien for federal income tax collection, will be made subject to and without disturbing the federal tax lien unless notice of the foreclosure sale is given to the Internal Revenue Service at least 25 days before the sale. Without this prior notice, the sale is made subject to the federal tax lien. Even when such notice is properly given, the United States may redeem such property within 120 days from the date of the sale, upon payment of the amount paid or credited at the sale, and interest from the date of the sale, and any cost in owning property in excess of the derived income. The remedy of nonjudicial foreclosure may be limited, restricted or denied, not only by bankruptcy or other debtor relief proceedings, but also by the death of a mortgagor either without leaving a will or with probate proceedings that are not independent of the probate court or by the appointment of a receiver by the court in a divorce action involving mortgages to which the spouses in such divorce proceedings are parties. The remedies afforded the holder of the mortgage debt in the events set forth in the preceding sentence require judicial action either as a prerequisite to the valid exercise of nonjudicial foreclosure or in the nature of a judicial foreclosure proceeding or sale through the legal representative involved with the sanction of the court.

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



**APPENDIX C-1**  
**GINNIE MAE AND THE GINNIE MAE CERTIFICATES**

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

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

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

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

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act"), to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool of mortgage loans insured by FHA under the Housing Act, or guaranteed by RHS under Title V of the Housing Act of 1949, or guaranteed by VA under the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38, United States Code. Section 306(g) further provides that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion, dated October 12, 1969, of an Assistant Attorney General of the United States, states that such guarantees under Section 306(g) of mortgage backed certificates of the type being delivered to the Trustee on behalf of the Department are authorized to be made by Ginnie Mae and "would constitute general obligations of the United States backed by its full faith and credit."

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

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

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

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

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

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

The Ginnie Mae Guaranty Agreement to be entered into by Ginnie Mae and the Master Servicer upon issuance of the Ginnie Mae Certificates (the "Ginnie Mae Guaranty Agreement") will provide that, in the event of a default by the Master Servicer, Ginnie Mae will have the right, by letter to the Master Servicer, to effect and complete the extinguishment of the Master Servicer's interest in the Mortgage Loans, and the Mortgage Loans are to thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the holder of the Ginnie Mae Certificate. In such event, the Ginnie Mae Guaranty Agreement will provide that Ginnie Mae will be the successor in all respects to the Master Servicer in its capacity under the Ginnie Mae Guaranty Agreement and the transaction and arrangements set forth or arranged for therein. At any time, Ginnie Mae may enter into an agreement with an institution approved by Ginnie Mae under which such institution undertakes and agrees to assume any part or all of such duties, and no such agreement will detract from or diminish the responsibilities, duties or liabilities of Ginnie Mae in its capacity as guarantor.

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

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

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

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## APPENDIX C-2

### FREDDIE MAC AND THE FREDDIE MAC CERTIFICATES

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. Section 1451-1459. Freddie Mac's statutory purposes are to provide stability in the secondary market for residential mortgages, to respond appropriately to the private capital market, to provide ongoing assistance to the secondary market for residential mortgages (including mortgages on housing for low- and moderate-income families), and to promote access to mortgage credit throughout the United States by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. To fulfill these statutory purposes Freddie Mac purchases residential mortgages and mortgage-related securities from mortgage lenders, other mortgage sellers and securities dealers and finances these purchases with debt and equity securities. In addition Freddie Mac guarantees the timely payment of principal and interest on single-class and multiclass securities representing an undivided interest in mortgages and/or mortgage-related securities.

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. The current Information Statement, current prospectuses, any supplements to each of the foregoing and any quarterly report prepared and made available by Freddie Mac can be obtained by writing to Freddie Mac – Investor Inquiry, 8200 Jones Branch Drive, McLean, Virginia 22102 or accessing Freddie Mac's internet website at [www.freddiemac.com](http://www.freddiemac.com).

Each Freddie Mac Certificate will represent undivided interests in a pool of fixed-rate, first-lien conventional Mortgage Loans or FHA and VA Loans, or participations interests therein. Freddie Mac guarantees to each holder of a Freddie Mac Certificate the timely payment of interest at the applicable coupon on the Freddie Mac Certificate and the timely payment of scheduled principal, whether or not Freddie Mac receives these payments on the underlying mortgages. Full and final payment of principal on the Freddie Mac Certificates will be made no later than the payment date occurring in the month of the Final Payment date for each Freddie Mac Certificate. Principal and interest payments on the Freddie Mac Certificates are not guaranteed by and are not debts or obligations of the United States or any federal agency or instrumentality other than Freddie Mac. Payments on Freddie Mac Certificates are made on the 15<sup>th</sup> day of each month or, if the 15<sup>th</sup> is not a business day, the next business day.

Freddie Mac receives monthly mortgage payments from its mortgage servicers during a Monthly Reporting Period that begins on the 16<sup>th</sup> of a month and ends on the 15<sup>th</sup> of the following month. For any month, a payment on a Freddie Mac Certificate will reflect monthly mortgage payments reported by servicers in the previous Monthly Reporting Period and prepayments reported by servicers in the calendar month prior to the payment up through the date Freddie Mac calculates its payment factors. Freddie Mac publishes its payment factors on or about the 5<sup>th</sup> day of each month.

The summary of the Freddie Mac Certificates does not purport to be comprehensive and is qualified in its entirety by reference to the Freddie Mac prospectuses and other documents relating to the offer and sale of Freddie Mac Certificates described herein.

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## APPENDIX C-3

### FANNIE MAE AND THE FANNIE MAE CERTIFICATES

#### **Mortgage-backed Securities Program**

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

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

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

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

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

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

#### **Pool Purchase Contract**

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

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

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

### **Fannie Mae Certificates**

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

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

### **Payments on Mortgage Loans; Distributions on Fannie Mae Certificates**

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

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



**APPENDIX D-1**

AUDITED FINANCIAL STATEMENTS

OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2003 and 2002

[Report of Independent Auditors]

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***Texas Department of  
Housing and Community  
Affairs—Revenue Bond  
Program***

*Financial Statements  
Year Ended August 31, 2003 and  
Independent Auditors' Report*

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2003:	
Statement of Net Assets	9-10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12-13
Notes to Financial Statements	14-30
Supplemental Schedule 1—Statement of Net Asset Information by Individual Activity	31-32
Supplemental Schedule 2—Statement of Revenues, Expenses and Changes in Net Asset Information by Individual Activity	33
Schedule 3—Miscellaneous Bond Information and Notes to Schedule 3	34-36
Schedule 4—Changes in Bond Indebtedness	37-38
Schedule 5—Debt Service Requirements	39-48
Schedule 6—Analysis of Funds Available for Debt Service—Revenue Bonds	49-52



## 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 statement of net assets of Texas Department of Housing and Community Affairs—Revenue Bond Enterprise Fund (the “Fund”) as of August 31, 2003 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and supporting schedules 3 through 6 (supplementary information on pages 31 to 52). 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 audit.

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

In our opinion, such 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, 2003 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 through 6 (supplementary information on pages 31 to 52) present fairly, in all material respects, the information set forth therein.

Management’s Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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*

December 15, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Texas Department of Housing and Community Affairs' Revenue Bond Program ("Bond Program") annual financial report presents management's discussion and analysis of the Department's financial performance during the fiscal year that ended on August 31, 2003. Please read it in conjunction with the Department's Bond Program financial statements, which follow this section.

### Financial Highlights

- Decrease in the Bond Program net assets of \$7.7 million.
- Decrease in Operating Income (Loss) of the Bond Program of \$35.1 million to \$(9.5) million. This was a combination of a decrease in revenues and increases in expenses. The change in fair value of investments decreased from \$24.6 million in fiscal year 2002 to \$(6.2) million in fiscal year 2003, or \$30.8 million, which accounted for 88% of the decrease in operating income. There was an increase in expenses, particularly bond interest expense, of \$3.3 million to \$98 million.
- The Bond Program's debt outstanding of \$1.7 billion as of August 31, 2003 increased \$124.8 million. Debt issuances and debt retirements totaled \$376.2 million and \$251.5 million, respectively.
- Loan originations for the year totaled \$189.3 million in the Bond Program.

### Financial Statements

The financial statements provide more detailed information about the Bond Program's funds. The Bond Program has only one type of fund, the proprietary fund.

- **Proprietary Fund**—The Bond Program's activities in its proprietary fund are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuances of taxable and tax-exempt bonds whose proceeds are used primarily to fund various types of loans to finance low- and moderate-income housing. The net assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes or debt service.

## Financial Analysis of the Revenue Bond Program

### Bond Program—Condensed Statement of Net Assets as of August 31, 2003

	Bond Program		Increase/(Decrease)	
	2003	2002	Amount	Percentage
<b>ASSETS:</b>				
Cash and investments	\$ 1,306,353,080	\$ 1,225,260,344	\$ 81,092,736	6.6 %
Loans, contracts and notes receivable	767,950,546	610,143,989	157,806,557	25.9
Interest receivable	9,986,771	9,985,608	1,163	0.0
Capital assets	271,130	379,820	(108,690)	(28.6)
Real estate owned	756,360	489,799	266,561	54.4
Deferred issuance cost	11,379,321	12,418,092	(1,038,771)	(8.4)
Other assets	551,526	270,051	281,475	104.2
Total assets	2,097,248,734	1,858,947,703	238,301,031	12.8
<b>LIABILITIES:</b>				
Bonds/notes payable	1,794,838,720	1,618,898,972	175,939,748	10.9
Interest payable	23,317,030	22,630,680	686,350	3.0
Deferred revenue	4,935,046	5,962,312	(1,027,266)	(17.2)
Other liabilities	177,089,370	106,683,895	70,405,475	66.0
Total liabilities	2,000,180,166	1,754,175,859	246,004,307	14.0
<b>NET ASSETS:</b>				
Invested in capital assets	271,130	379,820	(108,690)	(28.6)
Restricted	84,064,184	93,532,618	(9,468,434)	(10.1)
Unrestricted	12,733,254	10,859,406	1,873,848	17.3
Total net assets	\$ 97,068,568	\$ 104,771,844	\$ (7,703,276)	(7.4)

Net assets of the Bond Program decreased \$7,703,276, or 7.4%, to \$97,068,568. The decrease primarily resulted from a decrease in earnings of the Bond Program's investments, loans, and other programs and an increase in expenses. Restricted net assets of the Bond Program decreased \$9,468,434, or 10.1%. Unrestricted net assets decreased \$1,873,848, or 17.3%.

Cash and investments increased \$81,092,736, or 6.6%, to \$1,306,353,080, since funds were generated from debt issuances, reinvestment of loan repayments and interest earnings. The Bond Program loans receivable (current and noncurrent) increased \$157,806,557, or 25.9%, to \$767,950,546, due primarily to \$185,700,000 worth of mortgage loans originated under the Multi-Family Program. Total bonds and notes payable (current and noncurrent) increased \$175,939,748, or 10.9%, due to new debt issuances associated with the Bond Program's Single Family and Multi-Family Programs.



The following table illustrates a comparison between fiscal 2003 and 2002 for the Statement of Revenues, Expenses and Changes in Net Assets:

**Statement of Revenues, Expenses and Changes in Net Assets**

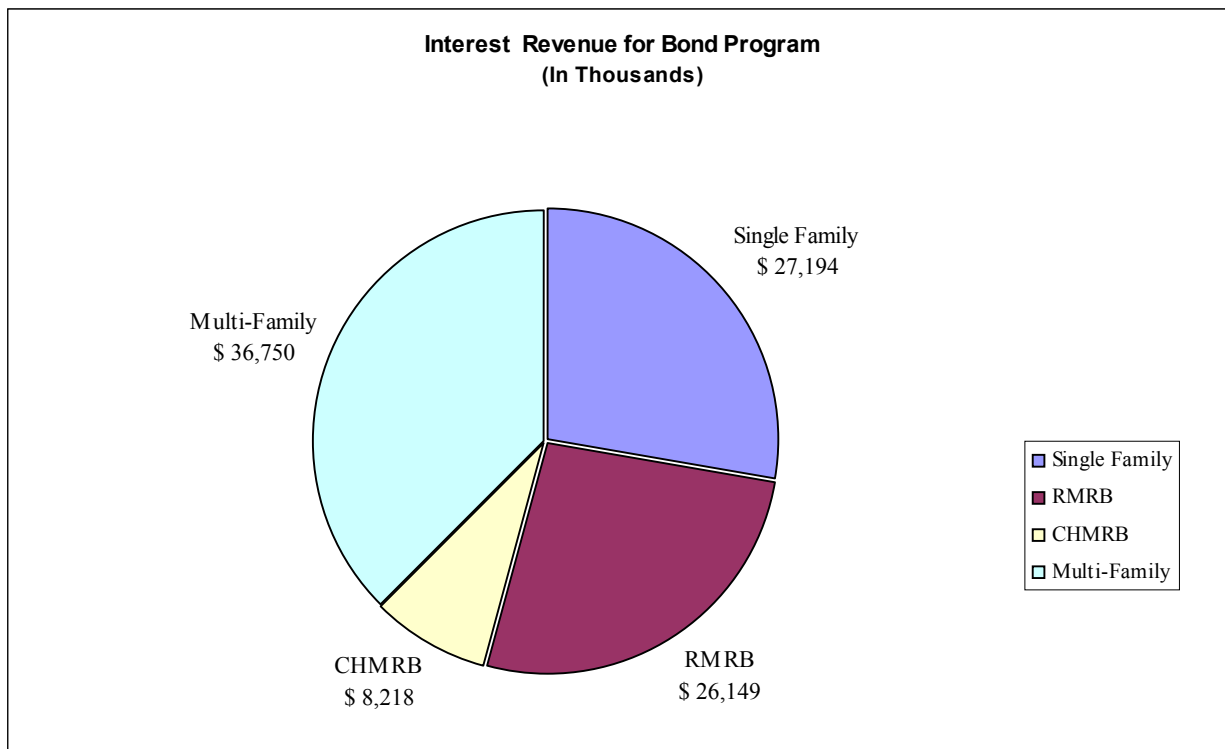
	2003	2002	Increase / (Decrease)	
			Amount	Percentage
<b>OPERATING REVENUES:</b>				
Interest and investment income	\$ 98,952,871	\$ 102,207,695	\$ (3,254,824)	3.2 %
Net increase (decrease) in fair value	(6,195,744)	24,642,250	(30,837,994)	(125.1)
Other operating revenues	<u>4,308,633</u>	<u>3,458,597</u>	<u>850,036</u>	24.6
Total operating revenues	<u>97,065,760</u>	<u>130,308,542</u>	<u>(33,242,782)</u>	(25.5)
<b>OPERATING EXPENSES:</b>				
Salaries and wages	3,279,480	3,285,919	(6,439)	(0.2)
Payroll-related costs	987,588	1,079,441	(91,853)	(8.5)
Professional fees and services	343,399	379,592	(36,193)	(9.5)
Travel	79,749	72,848	6,901	9.5
Materials and supplies	153,195	213,104	(59,909)	(28.1)
Communications and utilities	93,357	90,406	2,951	3.3
Repairs and maintenance	110,744	182,024	(71,280)	(39.2)
Rentals and leases	538,687	528,574	10,113	1.9
Printing and reproduction	30,639	34,625	(3,986)	(11.5)
Depreciation expense	654,117	650,190	3,927	0.6
Interest	97,952,620	94,647,042	3,305,578	3.5
Other operating expenses	<u>2,348,752</u>	<u>3,531,167</u>	<u>(1,182,415)</u>	(33.5)
Total operating expenses	<u>106,572,327</u>	<u>104,694,932</u>	<u>1,877,395</u>	1.8
OPERATING INCOME (LOSS)	(9,506,567)	25,613,610	(35,120,177)	(137.1)
NONOPERATING REVENUES (EXPENSES) AND EXTRAORDINARY ITEMS	<u>1,804,390</u>	<u>32,901</u>	<u>1,771,489</u>	5,384.3
CHANGE IN NET ASSETS	(7,702,177)	25,646,511	(33,348,688)	(130.0)
BEGINNING NET ASSETS	104,771,844	79,338,812	25,433,032	32.1
RESTATEMENTS	<u>(1,099)</u>	<u>(213,479)</u>	<u>212,380</u>	99.5
NET ASSETS—as restated	<u>104,770,745</u>	<u>79,125,333</u>	<u>25,645,412</u>	<u>32.4</u>
ENDING NET ASSETS	<u>\$ 97,068,568</u>	<u>\$ 104,771,844</u>	<u>\$ (7,703,276)</u>	(7.4)

Net assets of the Bond Program decreased from the August 31, 2002 amount by \$7,703,276, or 7.4 %, to \$97,068,568.

Earnings within the Bond Program's various bond indentures were \$97,065,760, of which \$95,210,695 is classified as restricted and \$1,855,065 as unrestricted. Restricted earnings are composed of \$98,730,769 in interest and investment income, \$(6,195,744) in fair value of investments and \$2,695,970 in other revenue.

Interest and investment income is restricted per bond covenants for debt service, fair value in investments is an unrealized loss due to the fact that the Bond Program holds investments until maturity, and other revenue is predominantly an accounting recognition of fees received in previous years that were deferred when received and are being amortized over a period of time. Unrestricted earnings are composed of \$222,402 in interest and investment income and \$1,632,663 in other operating revenue.

The graph below will illustrate the composition of interest revenue for the various bond indentures that make up the Bond Program:



Revenues of the Bond Program were interest and investment income of \$98,952,871 and a decrease of fair value of investments of \$6,195,744. Earned interest income consists primarily of interest earned on loans under the various lending programs within the Bond Program. Investment income consists of earned interest on the various investments held within the different bond indentures of the Bond Program. Interest and investment income are restricted to the specific bond indentures to pay debt service. Total revenue decreased \$33,242,782, which consisted primarily of the decrease in fair value of investments from a gain of \$24,642,250 in fiscal year 2002 to a loss of \$6,195,744 in fiscal year 2003.

Interest earned on program loans increased by \$3,817,956, or 9.7 %, due primarily to an increase of \$6,245,005, or 20.5%, within the Bond Program's Multi-Family Program, due to higher loan amounts outstanding. The increase was offset by a decrease of \$2,350,874, or 27.4%, within the Single Family Bond Program, due to decreasing balances of higher interest rate loans.

Investment income decreased \$6,465,715, or 10.4%, and reflected lower investment yields. The primary decrease in investment income was within the Residential Mortgage Revenue Bond Program funds, which declined \$3,940,960, or 13.2%.

Expenses of the Bond Program consist primarily of interest expense of \$97,952,620, which increased \$3,305,578, or 3.5%, on the Bond Program's debt incurred to fund its various lending programs.

The Bond Program also generated \$222,402 of unrestricted investment income, which was used primarily to partially offset its administrative costs. The decrease in fair value of investments of \$6,195,744 accounted for more than half of the Bond Program's change in net assets of \$(7,702,177).

The following table shows the changes in net assets by bond indenture for the Bond Program for the fiscal years 2003 and 2002:

**Changes in Net Assets by Fund Groups  
(Amounts in thousands)**

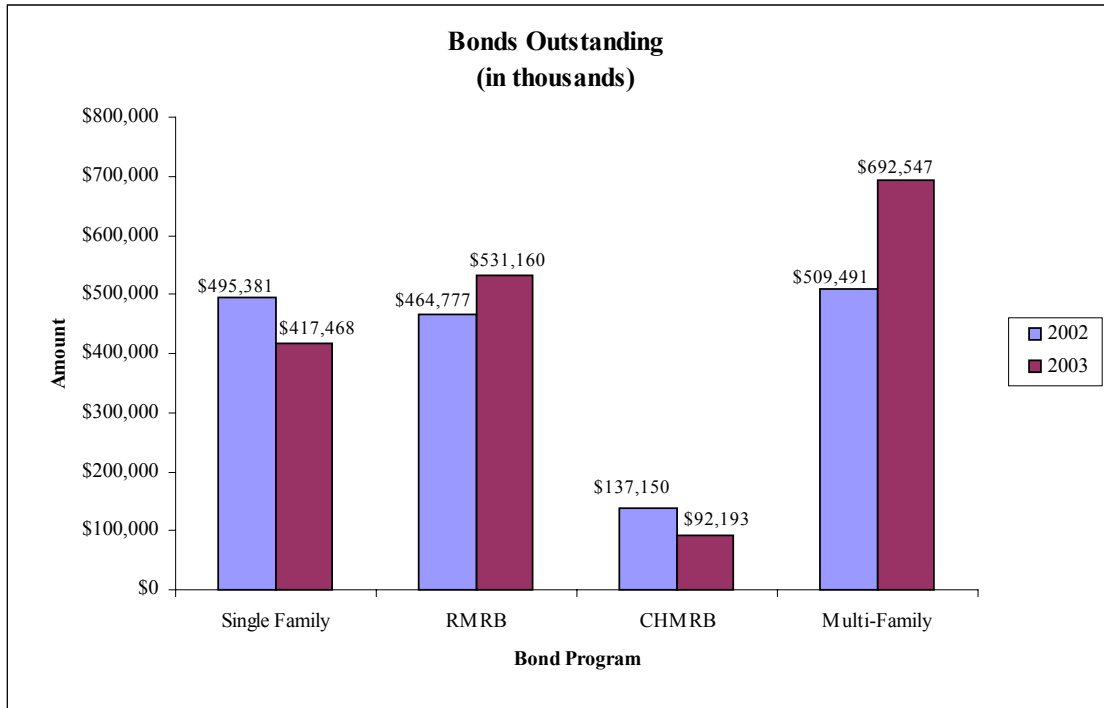
Fund	2003	2002	Increase/(Decrease)	
			Amount	Percentage
Single Family	\$58,538	\$ 62,367	\$ (3,829)	6.1 %
RMRB	17,463	22,818	(5,355)	(23.5)
CHMRB	2,191	1,738	453	26.1
Multifamily	1,632	1,382	250	18.1
1993 SF CHMRB	1,390	1,757	(367)	(20.9)
1994/1995 SF CHMRB	2,823	3,461	(638)	(18.4)
Commercial paper	28	10	18	180.0
General funds	<u>13,004</u>	<u>11,239</u>	<u>1,765</u>	15.7
Total	<u>\$97,069</u>	<u>\$104,772</u>	<u>\$ (7,703)</u>	(7.4)

Net assets of the Single Family Bond Programs decreased by \$3,829,627, or 6.1%, primarily due to a \$(2,195,483) adjustment to the fair value of investments. In the same manner, the net assets of the Residential Mortgage Revenue Bonds (RMRB) decreased by \$5,354,877 due to a \$(3,039,119) adjustment to fair value of investments and a decrease in investment income.

**Department Debt**

The Department's new debt issuances during fiscal year 2003 totaled \$376,295,000. The RMRB program Residential Mortgage Revenue Bond Program issued \$190,595,000 in bonds, and the Multi-Family Bond Program issued \$185,700,000. The Department also had \$251,534,464 in debt retirement during the year primarily due to consumer refinancing and paying off original loans. The net result was an increase in bonds payable of \$124,760,536 to \$1,732,907,279 of which \$12,766,000 is due within one year. For additional information, see Note 6, Bonds Payable, and supplementary bond information schedules.

The following graph will illustrate a comparison of bonds outstanding between fiscal year 2003 and 2002 per bond program:



### Request for Information

This financial report is designed to provide a general overview of the Texas Department of Housing and Community Affairs' ("TDHCA") operations for all parties interested in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Texas Department of Housing and Community Affairs, Director of Financial Administration, 507 Sabine Street, Austin, Texas, 78701.

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## STATEMENT OF NET ASSETS AUGUST 31, 2003

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents:	
Cash on hand	\$ 200
Cash in bank	90,388
Cash in state treasury	1,263,371
Cash equivalents	9,838,047
Restricted assets:	
Cash and cash equivalents:	
Cash in bank	904,173
Cash equivalents	164,488,833
Short-term investments	125,757,201
Loans and contracts	7,149,873
Interest receivable	9,986,771
Consumable inventories	11,308
Other current assets	<u>540,218</u>
Total current assets	<u>320,030,383</u>

#### NONCURRENT ASSETS:

Capital assets—Nondepreciable—other capital assets	3,273
Depreciable:	
Furniture and equipment	1,238,404
Less accumulated depreciation	(970,547)
Restricted assets:	
Investments	1,004,010,867
Loans and contracts	759,800,673
Notes receivable	1,000,000
Other noncurrent assets:	
Deferred bond issuance cost—net	11,379,321
Real estate owned—net	<u>756,360</u>
Total noncurrent assets	<u>1,777,218,351</u>

TOTAL ASSETS \$ 2,097,248,734

(Continued)

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## STATEMENT OF NET ASSETS AUGUST 31, 2003

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### LIABILITIES

#### CURRENT LIABILITIES:

Payables:	
Accounts payable	\$ 334,659
Accrued bond interest payable	23,317,030
Interfund payables	291,387
Deferred revenues	4,935,046
Employees' compensable leave	407,057
Notes and loans payable	61,470,000
Revenue bonds payable	12,766,000
Other current liabilities	<u>4,831,723</u>
 Total current liabilities	 <u>108,352,902</u>

#### NONCURRENT LIABILITIES:

Employees' compensable leave	110,097
Revenue bonds payable	1,720,602,720
Other noncurrent liabilities	<u>171,114,447</u>
 Total noncurrent liabilities	 <u>1,891,827,264</u>

#### TOTAL LIABILITIES

2,000,180,166

#### NET ASSETS:

Invested in capital assets	271,130
Restricted	84,064,184
Unrestricted	<u>12,733,254</u>

#### TOTAL NET ASSETS

\$ 97,068,568

See accompanying notes to the financial statements.

(Concluded)

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED AUGUST 31, 2003

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OPERATING REVENUES:	
Interest and investment income	\$ 98,952,871
Net decrease in fair value of investments	(6,195,744)
Other operating revenues	<u>4,308,633</u>
Total operating revenues	<u>97,065,760</u>
OPERATING EXPENSES:	
Salaries and wages	3,279,480
Payroll-related costs	987,588
Professional fees and services	343,399
Travel	79,749
Materials and supplies	153,195
Communications and utilities	93,357
Repairs and maintenance	110,744
Rentals and leases	538,687
Printing and reproduction	30,639
Depreciation and amortization	654,117
Interest	97,952,620
Other operating expenses	<u>2,348,752</u>
Total operating expenses	<u>106,572,327</u>
OPERATING LOSS	<u>(9,506,567)</u>
OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS:	
Extraordinary items (loss on early extinguishment of debt)	(1,958,026)
Transfers in	<u>3,762,416</u>
Total other revenues, expenses, gains, losses and transfers	<u>1,804,390</u>
CHANGE IN NET ASSETS	<u>(7,702,177)</u>
NET ASSETS—September 1, 2002	104,771,844
RESTATEMENTS	<u>(1,099)</u>
NET ASSETS—September 1, 2002—as restated	<u>104,770,745</u>
NET ASSETS—August 31, 2003	<u>\$ 97,068,568</u>

See accompanying notes to the financial statements.

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2003

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Proceeds from loan programs	\$ 140,132,735
Proceeds from other revenues	3,950,529
Payments to suppliers for goods/services	(5,297,315)
Payments to employees	(4,214,285)
Payments for loans provided	<u>(189,347,374)</u>
Net cash used in operating activities	<u>(54,775,710)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from debt issuance	427,482,921
Payments for other costs of debt	(1,541,661)
Transfers from other funds	3,762,416
Payments to other funds	(992)
Payments of principal on debt	(251,534,464)
Payments of interest	<u>(97,131,803)</u>
Net cash provided by noncapital financing activities	<u>81,036,417</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—Payments for additions to fixed assets	
	<u>(20,902)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	836,355,380
Proceeds from interest and investment income	60,821,934
Payments to acquire investments	<u>(836,510,389)</u>
Net cash provided by investing activities	<u>60,666,925</u>
INCREASE IN CASH AND CASH EQUIVALENTS	86,906,730
CASH AND CASH EQUIVALENTS—Beginning of year	<u>89,678,282</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 176,585,012</u>

(Continued)



# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2003

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CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS/ RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM TERM INVESTMENTS	\$ 302,342,213
SHORT-TERM INVESTMENTS NOT CONSIDERED CASH EQUIVALENTS	<u>(125,757,201)</u>
CASH AND CASH EQUIVALENTS—August 31, 2003	<u>\$ 176,585,012</u>
 RECONCILIATION OF CASH FROM OPERATING ACTIVITIES TO OPERATING INCOME:	
Operating loss	\$ (9,506,567)
Adjustments to reconcile operating income to net cash used in operating activities:	
Amortization and depreciation	654,117
Provision for estimated losses	340,896
Operating income and cash flow categories—classification differences	41,987,163
Changes in assets and liabilities:	
Increase in accrued interest receivable	(1,163)
Increase in loans	(158,806,557)
Increase in property owned	(266,561)
Decrease in mortgage loan acquisition costs	1,038,771
Decrease in deferred revenues	(1,027,266)
Increase in other assets and liabilities—net	70,125,107
Increase in accrued interest payable	<u>686,350</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>\$ (54,775,710)</u>

During 2003, loans totaling \$569,798 were foreclosed, and the related properties acquired were transferred to real estate owned.

See accompanying notes to the financial statements.

(Concluded)

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2003

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### 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 Program (the “Program”), which is included in the 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 seven members appointed by the Governor with advice and consent of the Senate. The Department is administered by an Executive Director appointed by the Governor 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 and is included in its reporting entity.

The Program 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”)*—Eleven series (three of which have been refunded) of these bonds have been issued pursuant to the RMRB master indenture and ten 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.
- *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 either provided to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing or 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 a 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 (collectively, 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 Housing Trust Fund will be used to provide assistance for low- and very-low-income persons and families in financing, acquiring, rehabilitating and developing affordable, decent and safe housing. The Housing Trust 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, 2011, unless it is continued in existence as provided in the Texas Sunset Act. If abolished, the Department may continue in existence until September 1, 2012, to close out its operations.

**Significant Accounting Policies**—The significant accounting policies of the Fund are as follows:

- a. *Fund Accounting*—The Program’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 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 Program has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- b. *Investments*—The Program follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement No. 31 requires certain types of investments to be reported at fair value on the balance sheet. The Program utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. Fair value of the Program’s securitized mortgage loans (“GNMA/FNMA”) has been estimated by each bond issue’s trustee using a pricing service.

The Program has reported all investment securities at fair value as of August 31, 2003, with the 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 (see Note 2).

In accordance with GASB Statement No. 31, changes in the fair value of investments are reported in the statement of revenues, expenses and changes in net assets as net increase in fair value of investments.

- c. *Mortgage-Backed Securities*—The Program’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 the loans are 90 days past due 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 chargeoffs on single-family and multifamily loans. The allowance for estimated losses on real estate owned is available for future chargeoffs 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. *Restricted Net Assets*—The net assets of the Program are restricted for various purposes of the bond trust indentures.
- l. *Invested in Capital Assets*—This component of net assets consists of capital assets, net of accumulated depreciation.
- m. *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.

- n. *Interfund Transactions*—The Program has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another, and they are accounted for as revenue or expense. All other interfund transactions are reported as transfers.
- o. *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.
- p. *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.
- q. *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.

**2. CASH AND CASH EQUIVALENTS, INVESTMENTS AND MORTGAGE-BACKED SECURITIES**

At August 31, 2003, the Program had cash and cash equivalents, investments and mortgage-backed securities as follows (in thousands):

	<b>Fair Value</b>
Cash and cash equivalents:	
Cash	\$ 2,258
Money market accounts	996
Mutual funds	78,464
Repurchase agreements	93,960
U.S. Treasury securities	907
	<b>\$ 176,585</b>
Investments:	
Guaranteed investment contracts	\$ 413,426
U.S. Treasury securities	6,555
Mortgage-backed securities	709,787
	<b>\$ 1,129,768</b>

At August 31, 2003, the Program’s bank deposits amounted to \$994,561, with bank balances of \$994,561. The entire amount was 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 zero. At August 31, 2003, the Program’s cash and deposits in the State Treasury amounted to \$1,263,371. This amount was fully collateralized by securities held with a trustee in the State’s name, as reported to the Department of Comptroller of Public Accounts of the State of Texas.

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

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$412,517,333 of investment agreements/contracts at August 31, 2003, which are unsecured. Additionally, the Department held uncategorized investments of approximately \$78,464,000 in constant-dollar money market mutual funds that are not subject to collateralization. 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 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, 2003 is as follows (in thousands):

	<b>Fair Value</b>
Repurchase and other investment agreements	\$ 507,386
Pass-through certificates	709,787
Other U.S. government securities	7,462
Mutual funds*	<u>79,460</u>
 Total investments	 <u>\$ 1,304,095</u>

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

Repurchase agreements and other qualified investment agreements with a carrying amount of \$507,385,985 at August 31, 2003 are generally secured by U.S. government obligations or other marketable securities with market values in excess of the cost. At August 31, 2003, the agreements were with the following counterparties (amounts in thousands):

<b>Counterparty</b>	
AEGON	\$ 43,804
AIG Matched Funding Corporation	1,218
American International Group	17,437
Bayerishone Landesbank	187,032
Berkshire Hathaway	5,638
CDC Funding Corporation	5,706
CORAND Central Fund	7,056
Core States Bank	595
Financial Guaranty Insurance Corporation	22,046
Lehman Brothers	1,042
MBIA Investment	12
Protective Life	1,144
SBC Warburg Dillion	93,960
Scott Fetzer Financial	1,000
Societe Generale	3,270
Transamerica Life	102,986
Trinity Funding Company	3,102
VR Municipal Mortgage	9,430
Westdeutsche Bank	908
	<u>\$ 507,386</u>

### 3. RESTRICTED ASSETS

Cash in bank, cash equivalents, short-term investments, loans and contracts, interest receivable and investments (which include mortgage-backed securities) totaling \$2,085,234 are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishing of 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, 2003 (in thousands):

<b>Program</b>	<b>Mortgage and Debt Service Reserve</b>	<b>Unspent Bond Proceeds</b>	<b>Revenue Account</b>	<b>Self- Insurance</b>	<b>Rebate Account</b>
Single-family	\$ 1,318	\$ 81,199	\$ 59,264	\$ 1,743	\$ 222
RMRB		129,212	25,677	401	1,422
CHMRB			1,833		
Multifamily	6,738	83,036	3,174		
93 SF CHMRB			1,976		7
94/95 SF CHMRB			1,779		21
Commercial Paper					172
	<u>\$ 8,056</u>	<u>\$ 293,447</u>	<u>\$ 93,703</u>	<u>\$ 2,144</u>	<u>\$ 1,844</u>
Total	<u>\$ 8,056</u>	<u>\$ 293,447</u>	<u>\$ 93,703</u>	<u>\$ 2,144</u>	<u>\$ 1,844</u>



Additionally, deferred issuance costs and real estate owned totaling \$11,379 and \$756, respectively, are also restricted.

#### 4. LOANS RECEIVABLE

Loans receivable as of August 31, 2003 consisted of the following (in thousands):

Single-family loans	\$ 75,391
Multifamily loans	689,715
RMRB (1987 Series A) single-family loans	3,014
Miscellaneous loans	<u>4,632</u>
Total loans	772,752
Deferred commitment fees, net of accumulated amortization of \$38,487 in 2003	(2,090)
Allowance for estimated loan losses	<u>(3,711)</u>
Total	<u>\$ 766,951</u>

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

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, 2003.

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 is as follows (in thousands):

Balance at beginning of year	\$ 4,004
Provision for estimated losses on loans	<u>(293)</u>
Balance at end of year	<u>\$ 3,711</u>

## 5. REAL ESTATE OWNED

Real estate owned for the Program was as follows (in thousands):

Real estate owned	\$ 714
Allowance for estimated losses	<u>42</u>
Real estate owned—net	<u>\$ 756</u>

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

Balance at beginning of year	\$ (12)
Amounts charged off	(3)
Provision for losses on real estate owned	<u>57</u>
Balance at end of year	<u>\$ 42</u>

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

## 6. BONDS PAYABLE

Bonds payable activity for the year ended August 31, 2003 consisted of the following (in thousands):

	Original Face Amount	Balance September 1, 2002	Additions/ Accretions	Maturities/ Prepayments	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
Single-family:							
1991 Series A 4.8% to 7.15%	\$ 81,605	\$ 13,605	\$ -	\$13,605	\$ -	2012	
1995 Series A—4.15% to 6.15%	85,760	66,760		11,990	54,770	2027	
1995 Series C—6.44% to 7.76%	71,760	32,595		12,110	20,485	2017	
1996 Series A—4.5% to 6.3%	15,000	9,975			9,975	2028	
1996 Series B—5.5% to 6%	42,140	15,465		6,255	9,210	2017	
1996 Series D—5.45% to 6.25%	70,760	56,820		9,135	47,685	2028	
1996 Series E—3.9% to 6%	98,730	51,835		11,265	40,570	2017	\$1,940
1997 Series A—5.25% to 5.80%	44,465	42,865		775	42,090	2029	
1997 Series B—5.45%	9,510	9,510			9,510	2019	
1997 Series C—6.80%	25,525	15,310		3,875	11,435	2029	
1997 Series D—5.65% to 5.70%	44,795	41,755		5,000	36,755	2029	
1997 Series F—6.77%	20,000	13,680		2,845	10,835	2029	
2002 Series A—7.01%	10,000	10,000			10,000	2026	
2002 Series A—5.45% to 5.55%	38,750	38,750			38,750	2034	
2002 Series B—5.35% to 5.55%	52,695	52,695			52,695	2033	
2002 Series C—2.80% to 5.20%	12,950	12,950			12,950	2017	
2002 Series D—2.0% to 4.5%	13,605	<u>13,605</u>		<u>1,750</u>	<u>11,855</u>	2012	<u>930</u>
Total principal amount		498,175	<u>\$ -</u>	<u>\$78,605</u>	419,570		<u>\$2,870</u>
Unamortized premium		1,579			1,492		
Unamortized discount and losses on refundings		<u>(4,373)</u>			<u>(3,594)</u>		
Total single-family		<u>\$ 495,381</u>			<u>\$417,468</u>		

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
<b>RMRB:</b>							
1989 Series A—6.6% to 7.6%	\$ 44,000	\$ 40		\$ 40		2016	
1989 Series B—7.85%	45,000	45		45		2018	
1998 Series A—4.05% to 5.35%	102,055	90,625		8,445	\$ 82,180	2031	\$1,850
1998 Series B—5.30%	14,300	13,560		450	13,110	2022	
1999 Series A—4.80% to 5.50%	25,615	16,370		3,770	12,600	2021	
1999 Series B-1—6.32% to 5.50%	52,260	49,520		2,070	47,450	2032	
1999 Series C—5.05% to 6.25%	12,150	12,150		185	11,965	2024	110
1999 Series D—4.30% to 6.25%	26,355	12,540		12,165	375	2021	
2000 Series A—5.10% to 6.30%	50,000	46,210		7,545	38,665	2031	460
2000 Series B—5.70%	82,975	81,955		3,180	78,775	2033	
2000 Series C—5.85% to 5.82%	13,675	13,425		635	12,790	2025	
2000 Series D—4.55% to 5.85%	18,265	17,815		1,545	16,270	2020	835
2000 Series E—7.45%	10,000	9,215		3,340	5,875	2033	
2001 Series A—3.15% to 5.70%	52,715	52,715		1,465	51,250	2033	805
2001 Series B—5.0% to 5.25%	15,585	15,585		520	15,065	2022	
2001 Series C—2.55% to 4.63%	32,225	32,225		5,600	26,625	2015	1,820
2001 Series D—5.35%	300	300		65	235	2033	
2002 Series A—2.25% to 5.35%	42,310		\$ 42,310	5	42,305	2034	665
2002 Series B—1.25%	74,655		74,655	74,655		2035	
2003 Series A—1.70% to 5.00%	73,630		73,630		73,630	2034	
<b>Total principal amount</b>		<b>464,295</b>	<b>\$190,595</b>	<b>\$125,725</b>	<b>529,165</b>		<b>\$6,545</b>
Unamortized premium		2,996			4,558		
Unamortized discount and loss on refundings		(2,514)			(2,562)		
<b>Total RMRB</b>		<b>\$464,777</b>			<b>\$531,161</b>		
<b>CHMRB:</b>							
1992 Series C—linked rate averaging 6.90%	\$ 72,700	\$ 58,300		\$ 16,100	\$ 42,200	2024	
<b>Total principal</b>		<b>58,300</b>		<b>\$ 16,100</b>	<b>42,200</b>		
Plus unamortized premium		1,415			1,003		
<b>Total CHMRB</b>		<b>\$ 59,715</b>			<b>\$ 43,203</b>		
<b>SF MRB CHMRB:</b>							
1993 Series A—5.85%	\$ 11,695	\$ 5,585		\$ 1,495	\$ 4,090	2025	
1993 Series B—6.62%	15,000	6,760		2,105	4,655	2025	
1993 Series C—6.68%	15,000	7,735		2,985	4,750	2025	
1993 Series D—6.76%	8,000	3,440		1,005	2,435	2025	
1993 Series E—6.85%	8,780	3,060		1,020	2,040	2025	
1994 Series A—6.85%	35,395	20,860		8,505	12,355	2026	
1994 Series B—6.4%	33,385	19,330		6,490	12,840	2026	
1994 Series C—6.25%	15,360	9,985		4,250	5,735	2026	
1995 MRRB Series A—6.26%	5,825	680		590	90	2015	
<b>Total SF MRB CHMRB</b>		<b>\$ 77,435</b>		<b>\$ 28,445</b>	<b>\$ 48,990</b>		

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
1984 Series (Allied Bank Private Placement—Summer Bend at Las Colinas)—variable rate currently at 8%	\$10,100	\$ 8,120	\$ -		\$ 8,120	2022	
1987 Series (South Texas Rental Housing)—9.5%	1,400	964		\$ 58	906	2012	\$ 63
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	14,495		350	14,145	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	20,555		325	20,230	2026	415
1996 Series A, B, C and D (Harbors and Plumtree)—5.9% to 10%	13,050	12,035		210	11,825	2026	225
1996 Series A and B (NHP Foundation)—5.50% to 6.4%	27,560	25,475		460	25,015	2027	490
1997 Series (Meadow Ridge) 5.05% to 5.55%	13,575	13,130		180	12,950	2030	190
1998 Series (Pebble Brook)—4.95% to 5.60%	10,900	10,700		145	10,555	2030	150
1998 Series A, B and C (Residence Oaks)—5.98% to 7.18%	8,200	8,042		113	7,929	2030	118
1998 Series (Volente)—5.00% to 5.63%	10,850	10,630		135	10,495	2031	150
1998 Series (Dallas—Oxford Rfdg.)—7.25%	10,300	10,300			10,300	2018	
1998 Series (Greens)—5.2% to 6.03%	13,500	13,280		150	13,130	2030	190
1999 Series (Mayfield)—5.7% to 7.25%	11,445	11,295		158	11,137	2031	167
1999 Series (Woodglen Village)—7.38% to 8.25%	10,660	10,653		46	10,607	2039	49
2000 Series (Timber Point)—variable rate	8,100	8,100			8,100	2032	200
2000 Series (Oaks @ Hampton)—7.20% to 9.00%	10,060	10,041		48	9,993	2040	52
2000 Series (Deerwood)—5.25% to 6.40%	6,435	6,435		40	6,395	2032	75
2000 Series (Creek Point)—variable rate	7,200	7,200			7,200	2032	100
2000 Series A/B (Parks @ Westmoreland)—7.20% to 9.00%	9,990	9,986		47	9,939	2040	51
2000 Series (Honeycreek)—7.63% to 8.15%	20,485	20,485			20,485	2035	9
2000 MF Series A-C (Highland Meadow Apts)—6.75% to 8%	13,500	13,500			13,500	2033	145
2000 MF Series A/B (Greenbridge)—7.4% to 10%	20,085	20,085		38	20,047	2040	75
2000 MF Series A-C (Collingham Park)—6.72% to 7.72%	13,500	13,500			13,500	2,033	72
2000 MF Series A/B (Williams Run)—7.65% to 9.25%	12,850	12,767		96	12,671	2040	67

(Continued)

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
2000 MF Series A/B (Red Hills Villas) - 8.4% to 9.5%	\$10,300	\$ 10,300	\$ -	\$ 28	\$ 10,272	2040	\$ 40
2001 MF Series (Bluffview Senior Apts)—7.65%	10,700	10,700		14	10,686	2041	44
2001 MF Series (Knollwood Villas Apts)—7.65%	13,750	13,750		18	13,732	2041	56
2001 MF Series (Skyway Villas)—6.0% to 6.5%	13,250	13,250			13,250	2034	
2001 MF Series A/B (Cobb Park)—6.77%	7,785	7,785		2	7,783	2041	29
2001 MF Series A (Greens Road Apts)—5.3% to 5.4%	8,375	8,375			8,375	2034	
2001 MF Series A (Meridian Apts)—5.45% to 6.85%	14,310	14,310			14,310	2034	
2001 MF Series A (Wildwood Apts)—5.45% to 6.75%	14,365	14,365			14,365	2034	
2001 MF Series A-C (Fallbrook Apts)—6.06% to 6.78%	14,700	14,700			14,700	2034	
2001 MF Series A (Oak Hollow Apts)—7.0% to 7.9%	8,625	8,625			8,625	2041	30
2001 MF Series A/B (Hillside Apts)—7.0% to 9.25%	12,900	12,900			12,900	2041	39
2002 MF Series A (Millstone Apts)—5.35% to 5.86%	12,700	12,700			12,700	2035	
2002 MF Series A (Sugar Creek Apts)—6.0%	11,950	11,950			11,950	2042	30
2002 MF Series A (West Oaks Apts)—7.15% to 7.5%	10,150	10,150			10,150	2042	30
2002 MF Series A (Park Meadows Apts)—6.53%	4,600	4,600			4,600	2034	
2002 MF Series A (Clarkridge Villas Apts)—7.0%	14,600		14,600		14,600	2042	
2002 MF Series A (Hickory Trace Apts)—7.0%	11,920		11,920		11,920	2042	
2002 MF Series A (Green Crest Apts)—7.0%	12,500		12,500		12,500	2042	
2002 MF Series A/B (Ironwood Crossing)—5.5% to 8.75%	16,970		16,970		16,970	2042	
2002 MF Series A/B (Woodway Village Apts)—4.9% to 5.2%	9,100		9,100		9,100	2023	
2003 MF Series A/B (Reading Road Apts)—Variable not to exceed 12%	12,200		12,200		12,200	2036	
2003 MF Series A/B (North Vista Apts)—4.1% to 5.41%	14,000		14,000		14,000	2036	
2003 MF Series A/B (West Virginia Apts)—4.15% to 5.41%	9,450		9,450		9,450	2036	
2003 MF Series A/B (Sphinx @ Murdeaux)—3.55% to 5.0%	15,085		15,085		15,085	2042	
2003 MF Series A/B (Primrose Houston School)—5.5% to 8.0%	16,900		16,900		16,900	2036	
2003 MF Series A/B (Timber Oaks Apts)—6.75 to 8.75%	13,200		13,200		13,200	2043	

(Continued)

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
2003 MF Series A/B (Ash Creek Apts)—5.6% to 15.0%	\$16,375	\$ -	\$ 16,375	\$ -	\$ 16,375	2036	\$ -
2003 MF Series A/B (Peninsula Apts)—4.25 to 5.3%	12,400		12,400		12,400	2024	
2003 MF Series A/B (Evergreen @ Mesquite) 6.6% to 8.0%	11,000		<u>11,000</u>		<u>11,000</u>	2043	
Total principal amount		509,942	<u>\$185,700</u>	\$ 1,718	588,046		
Unamortized discount		<u>(451)</u>			<u>(435)</u>		
Total multifamily		<u>509,491</u>			<u>587,611</u>		
Total		<u>\$ 1,606,799</u>			<u>\$1,733,369</u>		

(Concluded)

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 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 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 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 nonperformance or nonobservance of any other covenants, agreements or conditions contained in the indentures. Management believes that it is in compliance with the covenants of the indentures.

Bond contractual maturities (principal only) at August 31, 2003 are as follows (in thousands):

Description	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2018
Single-family	\$ 2,870	\$ 4,385	\$ 4,585	\$ 4,920	\$ 5,285	\$ 23,905	\$ 81,135
RMRB	6,545	20,040	8,400	8,775	9,195	42,865	54,290
CHMRB							90
Multifamily	<u>3,351</u>	<u>4,742</u>	<u>5,520</u>	<u>6,623</u>	<u>9,113</u>	<u>43,990</u>	<u>71,607</u>
Total	<u>\$ 12,766</u>	<u>\$ 29,167</u>	<u>\$ 18,505</u>	<u>\$ 20,318</u>	<u>\$ 23,593</u>	<u>\$ 110,760</u>	<u>\$ 207,122</u>

Description	2019 to 2023	2024 to 2028	2029 to 2033	2034 to 2038	2039 to 2043	Total
Single-family	\$ 29,620	\$ 92,630	\$ 165,200	\$ 5,035	\$ -	\$ 419,570
RMRB	82,185	53,925	236,830	6,115		529,165
CHMRB		91,100				91,190
Multifamily	<u>104,468</u>	<u>147,152</u>	<u>118,217</u>	<u>98,063</u>	<u>80,136</u>	<u>692,982</u>
Total	<u>\$216,273</u>	<u>\$384,807</u>	<u>\$520,247</u>	<u>\$109,213</u>	<u>\$ 80,136</u>	<u>\$1,732,907</u>

Actual maturities will differ from contractual maturities since 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, 2003 are as follows (in thousands):

Description	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2018
Single-family	\$ 27,407	\$ 28,752	\$ 28,745	\$ 28,852	\$ 28,956	\$ 138,188	\$ 181,451
RMRB	35,117	48,201	35,637	35,642	35,662	168,922	170,880
CHMRB	6,073	6,073	6,073	6,073	6,073	30,365	30,434
Multifamily	<u>56,145</u>	<u>57,830</u>	<u>58,195</u>	<u>59,167</u>	<u>60,458</u>	<u>292,648</u>	<u>294,200</u>
Total	<u>\$124,742</u>	<u>\$140,856</u>	<u>\$128,650</u>	<u>\$129,734</u>	<u>\$131,149</u>	<u>\$ 630,123</u>	<u>\$ 676,965</u>

Description	2019 to 2023	2024 to 2028	2029 to 2033	2034 to 2038	2039 to 2043	Total
Single-family	\$ 111,380	\$ 161,421	\$ 175,546	\$ 5,046	\$ -	\$ 915,744
RMRB	177,422	129,340	280,595	6,280		1,123,698
CHMRB	30,335	102,929				224,428
Multifamily	<u>294,430</u>	<u>285,109</u>	<u>204,617</u>	<u>143,246</u>	<u>94,476</u>	<u>1,900,521</u>
Total	<u>\$613,567</u>	<u>\$678,799</u>	<u>\$660,758</u>	<u>\$154,572</u>	<u>\$ 94,476</u>	<u>\$4,164,391</u>

Deferred issuance costs at August 31, 2003 consist of the following (in thousands):

Deferred issuance costs	\$ 31,021
Less accumulated amortization	<u>(19,642)</u>
	<u>\$ 11,379</u>

## 7. EMPLOYEE BENEFITS

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

**Funding Policy**—Under provisions in State law, plan members are required to contribute 6% of their annual covered salary, and the Department contributes an amount equal to 6% of the Department’s covered payroll. The Department and the employees’ contributions to the System for the years ending August 31, 2003, 2002 and 2001 were \$882,122, \$891,391 and \$788,309, respectively, equal to the required contributions for each year.

## 8. SEGMENT FINANCIAL DATA

Segment financial data of the Program’s direct-debt activities at August 31, 2003 and for the year then ended are follows (in thousands):

	Single-Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Single-Family CHMRB Series 1993 Funds	Single-Family CHMRB 1994 and 1995 Funds	Combined Totals
CONDENSED STATEMENT OF NET ASSETS:						
Restricted assets:						
Current assets	\$ 71,617	\$ 72,885	\$ 693	\$ 2,077	\$ 1,062	\$ 77,618
Other assets	<u>420,470</u>	<u>486,694</u>	<u>45,699</u>	<u>17,382</u>	<u>32,963</u>	<u>1,139,169</u>
Total assets	<u>492,087</u>	<u>559,579</u>	<u>46,392</u>	<u>19,459</u>	<u>34,025</u>	1,216,787
Liabilities:						
Current liabilities	18,951	15,841	999	99	182	33,481
Long-term liabilities	<u>414,598</u>	<u>526,275</u>	<u>43,202</u>	<u>17,970</u>	<u>31,020</u>	<u>1,091,165</u>
Total liabilities	<u>433,549</u>	<u>542,116</u>	<u>44,201</u>	<u>18,069</u>	<u>31,202</u>	<u>1,124,646</u>
NET ASSETS—Restricted net assets	<u>\$ 58,538</u>	<u>\$ 17,463</u>	<u>\$ 2,191</u>	<u>\$ 1,390</u>	<u>\$ 2,823</u>	<u>\$ 92,141</u>



	Single-Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Single-Family CHMRB Series 1993 Funds	Single-Family CHMRB 1994 and 1995 Funds	Combined Totals
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:						
Operating revenues:						
Interest and investment income	\$ 27,194	\$ 26,149	\$ 3,738	\$ 1,536	\$ 2,944	\$ 71,200
Net increase (decrease) in fair value	(2,195)	(3,039)	55	(313)	(702)	24,642
Other operating revenues	868	883	82			1,876
Operating expenses	(27,005)	(27,973)	(3,644)	(1,481)	(2,672)	67,176
Depreciation and amortization	(286)	(241)	(10)	(8)	(9)	520
Operating income (loss)	(1,424)	(4,221)	221	(266)	(439)	30,023
Non-operating revenues (expenses)— other non-operating revenues (expenses):						
Special and extraordinary items	(1,294)	(742)	244	(66)	(99)	(1,858)
Transfers out	(1,111)	(392)	(12)	(35)	(100)	(2,311)
Change in net assets	(3,829)	(5,355)	453	(367)	(638)	26,604
Net assets—September 1, 2001	<u>62,367</u>	<u>22,818</u>	<u>1,738</u>	<u>1,757</u>	<u>3,461</u>	<u>65,537</u>
Net assets—August 31, 2002	<u>\$ 58,538</u>	<u>\$ 17,463</u>	<u>\$ 2,191</u>	<u>\$ 1,390</u>	<u>\$ 2,823</u>	<u>\$ 92,141</u>
CONDENSED STATEMENT OF CASH FLOWS:						
Net cash provided by (used in):						
Operating activities	\$ 30,563	\$ 2,120	\$ (82)	\$ (12)	\$ (17)	\$ 29,775
Noncapital financing activities	(106,689)	37,827	(19,590)	(10,161)	(22,699)	(7,805)
Investing activities	111,717	(30,313)	19,679	11,119	22,841	(68,126)
Cash and cash equivalents— September 1, 2002	<u>30,015</u>	<u>4,853</u>	<u>443</u>	<u>1,038</u>	<u>763</u>	<u>83,269</u>
Cash and cash equivalents— August 31, 2003	<u>\$ 65,606</u>	<u>\$ 14,487</u>	<u>\$ 450</u>	<u>\$ 1,984</u>	<u>\$ 888</u>	<u>\$ 37,113</u>

## 9. COMMITMENTS AND CONTINGENCIES

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

## 10. RISK FINANCING AND RELATED INSURANCE ISSUES

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; efforts and omissions; and natural disasters. It is the Department's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. Currently, there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities. The Department carries Public Official Liabilities Insurance coverage in the amount of \$10,000,000, errors and omissions insurance of \$350,000 related to loan servicing for others and a \$300,000 public employee fidelity bond.

**11. RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS**

During the 2003 fiscal year, one adjustment was made that required the restatement of the amounts in fund equity, as shown and discussed below:

Fund equity at August 31, 2002	\$ 104,771,844
Restatements:	
Correction of error in the financial statements of a prior period	<u>(1,099)</u>
Net assets at September 1, 2002—as restated	<u>\$ 104,770,745</u>

**12. SUBSEQUENT EVENTS**

On October 31, 2003, the Department issued \$17,100,000 in multifamily revenue bonds (Arlington Villas Apartments), made up as follows:

\$ 15,000,000	MF 2003 Series A
\$ 2,100,000	MF 2003 Series B

The multifamily bonds were issued for the primary purpose of financing the acquisition, construction and equipping of multifamily residential rental development. Arlington Villas will be located in Arlington, Texas.

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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 1**

**SUPPLEMENTAL SCHEDULE—STATEMENT OF NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY  
AUGUST 31, 2003**

<b>ASSETS</b>	<b>Single-Family Program</b>	<b>RMRB Program</b>	<b>CHMRB Program</b>	<b>Multifamily Program</b>	<b>1993 CHMRB Program</b>	<b>1994/1995 CHMRB Program</b>	<b>Commercial Paper Program</b>	<b>Operating Fund</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents:									
Cash on hand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 200
Cash in bank								90,388	90,388
Cash in state treasury								1,263,371	1,263,371
Cash equivalents								9,838,047	9,838,047
<b>Restricted assets:</b>									
Cash and cash equivalents:									
Cash in bank	169,740	91,733		620,529	1	2	22,168		904,173
Cash equivalents	65,435,863	14,394,888	449,879	81,163,701	1,984,277	888,316	171,909		164,488,833
Short-term investments		55,651,004		8,636,197			61,470,000		125,757,201
Loans and contracts	3,916,394	110,273		3,032,000					7,149,873
Interest receivable	2,090,595	2,634,056	243,438	4,607,569	92,845	173,541	129,939	91,206	9,971,983
<b>Receivable:</b>									
Interest receivable								14,788	14,788
Consumable inventories	4,646	3,300		467,414		(3)		11,308	11,308
Other current assets								64,861	64,861
<b>Total current assets</b>	<u>71,617,238</u>	<u>72,885,254</u>	<u>693,317</u>	<u>98,527,410</u>	<u>2,077,123</u>	<u>1,061,856</u>	<u>61,794,016</u>	<u>11,374,169</u>	<u>320,030,383</u>
<b>NONCURRENT ASSETS:</b>									
Other receivables								3,273	3,273
<b>Capital assets:</b>									
Nondepreciable:									
Other capital assets								1,238,404	1,238,404
Depreciable:								(970,547)	(970,547)
Furniture and equipment									
Less accumulated depreciation									
<b>Restricted assets:</b>									
Investments	348,083,544	478,844,461	45,331,023	81,703,404	17,243,140	32,805,295			1,004,010,867
Loans, contracts and notes receivable	66,649,866	2,839,385		688,802,910				2,508,512	760,800,673
<b>Other noncurrent assets:</b>									
Deferred issuance cost—net	4,988,102	5,002,032	368,151	723,919	139,257	157,860			11,379,321
Real estate owned—net	748,225	8,135							756,360
<b>Total noncurrent assets</b>	<u>420,469,737</u>	<u>486,694,013</u>	<u>45,699,174</u>	<u>771,230,233</u>	<u>17,382,397</u>	<u>32,963,155</u>	<u>-</u>	<u>2,779,642</u>	<u>1,777,218,351</u>
<b>TOTAL ASSETS</b>	<u>\$ 492,086,975</u>	<u>\$ 559,579,267</u>	<u>\$ 46,392,491</u>	<u>\$ 869,757,643</u>	<u>\$ 19,459,520</u>	<u>\$ 34,025,011</u>	<u>\$ 61,794,016</u>	<u>\$ 14,153,811</u>	<u>\$ 2,097,248,734</u>

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 1**

**SUPPLEMENTAL SCHEDULE—STATEMENT OF NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY  
AUGUST 31, 2003**

<b>LIABILITIES</b>	<b>Single- Family Program</b>	<b>RMRB Program</b>	<b>CHMRB Program</b>	<b>Multifamily Program</b>	<b>1993 CHMRB Program</b>	<b>1994/1995 CHMRB Program</b>	<b>Commercial Paper Program</b>	<b>Operating Fund</b>	<b>Total</b>
<b>CURRENT LIABILITIES:</b>									
Payables:									
Accounts payable	\$ 61,015	\$ 16,076	\$ 833	\$ 691	\$ -	\$ -	\$ -	\$ 256,044	\$ 334,659
Accrued bond interest payable	12,313,719	4,295,056	143,589	6,173,627	97,428	169,346	124,265	291,387	23,317,030
Due to other funds									291,387
Due to other agencies	2,041,671	2,039,040	854,335						4,935,046
Deferred revenues								407,057	407,057
Employee's compensable leave									61,470,000
Notes and loans payable	2,870,000	6,545,000		3,351,000			61,470,000		12,766,000
Revenue bonds payable	1,665,054	2,945,583		(3,167)	1,976	12,944	171,909	37,424	4,831,723
Other current liabilities									
Total current liabilities	<u>18,951,459</u>	<u>15,840,755</u>	<u>998,757</u>	<u>9,522,151</u>	<u>99,404</u>	<u>182,290</u>	<u>61,766,174</u>	<u>991,912</u>	<u>108,352,902</u>
<b>NONCURRENT LIABILITIES:</b>									
Employee's compensable leave								110,097	110,097
Revenue bonds payable	414,597,907	524,615,220	43,202,828	689,196,765	17,970,000	31,020,000		47,418	1,720,602,720
Other noncurrent liabilities		1,660,446		169,406,583					171,114,447
Total noncurrent liabilities	<u>414,597,907</u>	<u>526,275,666</u>	<u>43,202,828</u>	<u>858,603,348</u>	<u>17,970,000</u>	<u>31,020,000</u>		<u>157,515</u>	<u>1,891,827,264</u>
TOTAL LIABILITIES	<u>\$ 433,549,366</u>	<u>\$ 542,116,421</u>	<u>\$ 444,201,585</u>	<u>\$ 868,125,499</u>	<u>\$ 18,069,404</u>	<u>\$ 31,202,290</u>	<u>\$ 61,766,174</u>	<u>\$ 1,149,427</u>	<u>\$ 2,000,180,166</u>
<b>NET ASSETS</b>									
<b>INVESTED IN CAPITAL ASSETS—</b>									
Net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 271,130	\$ 271,130
RESTRICTED	58,537,609	17,462,846	2,190,906	1,632,144	1,390,116	2,822,721	27,842	12,733,254	84,064,184
UNRESTRICTED									12,733,254
TOTAL NET ASSETS	<u>\$ 58,537,609</u>	<u>\$ 17,462,846</u>	<u>\$ 2,190,906</u>	<u>\$ 1,632,144</u>	<u>\$ 1,390,116</u>	<u>\$ 2,822,721</u>	<u>\$ 27,842</u>	<u>\$ 13,004,384</u>	<u>\$ 97,068,568</u>

See accompanying independent auditors' report.

(Concluded)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 2**

**SUPPLEMENTAL SCHEDULE—STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY  
YEAR ENDED AUGUST 31, 2003**

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
<b>OPERATING REVENUES:</b>									
Interest and investment income	\$27,194,310	\$26,148,954	\$3,738,412	\$36,750,496	\$1,535,735	\$2,943,695	\$418,867	\$ 222,402	\$ 98,952,871
Net increase (decrease) in fair value	(2,195,483)	(3,039,119)	53,791	841,443	(312,633)	(702,300)			(6,195,744)
Other operating revenues	868,437	883,776	82,314					1,632,663	4,308,633
Total operating revenues	25,867,264	23,993,611	3,874,517	37,591,939	1,223,102	2,241,395	418,867	1,855,065	97,065,760
<b>OPERATING EXPENSES:</b>									
Salaries and wages								3,279,480	3,279,480
Payroll related costs								987,588	987,588
Professional fees and services	14,555	22,500	4,500		5,000	3,000	40,026		343,399
Travel								79,749	79,749
Materials and supplies								153,195	153,195
Communications and utilities								93,357	93,357
Repairs and maintenance								110,744	110,744
Rentals and leases								538,687	538,687
Printing and reproduction	285,970	241,367	9,853	14,963	7,609	8,598		30,639	30,639
Depreciation and amortization	26,227,111	26,926,617	3,562,302	36,727,084	1,469,053	2,656,188	384,265	85,757	654,117
Interest									97,952,620
Claims and losses	763,259	1,024,057	77,010	4,918	7,125	12,939	5,376	454,068	2,348,752
Other operating expenses	27,290,895	28,214,541	3,653,665	36,746,965	1,488,787	2,680,725	429,667	6,067,082	106,572,327
Total operating expenses	(1,423,631)	(4,220,930)	220,852	844,974	(265,685)	(439,330)	(10,800)	(4,212,017)	(9,506,567)
<b>OPERATING INCOME (LOSS)</b>									
	(1,423,631)	(4,220,930)	220,852	844,974	(265,685)	(439,330)	(10,800)	(4,212,017)	(9,506,567)
<b>NON-OPERATING REVENUES (EXPENSES):</b>									
Gain (loss) on sale of investments									
Total non-operating revenues (expenses)	(1,294,615)	(741,876)	243,982		(66,123)	(99,394)			(1,958,026)
Income (loss) before other revenues, expenses, gains, losses and transfers	(1,111,381)	(392,071)	(11,527)	(595,075)	(35,279)	(99,427)	28,902	5,978,274	3,762,416
Transfers in (out)	(3,829,627)	(5,354,877)	453,307	249,899	(367,087)	(638,151)	18,102	1,766,257	(7,702,177)
<b>CHANGE IN NET ASSETS</b>									
	62,367,236	22,817,723	1,737,599	1,382,245	1,757,203	3,460,872	9,740	11,239,226	104,771,844
Restatements								(1,099)	(1,099)
<b>NET ASSETS—September 1, 2002</b>									
Restatements	62,367,236	22,817,723	1,737,599	1,382,245	1,757,203	3,460,872	9,740	11,238,127	104,770,745
<b>NET ASSETS—August 31, 2003</b>	\$58,537,609	\$17,462,846	\$2,190,906	\$ 1,632,144	\$1,390,116	\$2,822,721	\$ 27,842	\$13,004,384	\$ 97,068,568

See accompanying independent auditors' report.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 3**

**MISCELLANEOUS BOND INFORMATION**

**AUGUST 31, 2003**

**(Amounts in thousands)**

Description of Issue	Original Principal Bonds Issued to Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1991 Single Family Series A	81,605	4.80%	7.15%	1992	2012	09/01/2001
1995 Single Family Series A	85,760	4.15%	6.15%	1997	2027	09/01/2005
1995 Single Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/2005
1996 Single Family Series A	15,000	4.50%	6.30%	2001	2028	09/01/2006
1996 Single Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/2006
1996 Single Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/2006
1996 Single Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/2006
1996 Single Family Series E	98,730	3.90%	6.00%	1997	2017	09/01/2006
1997 Single Family Series A	44,465	5.25%	5.80%	2013	2029	09/01/2007
1997 Single Family Series B	9,510	5.45%	5.45%	2019	2019	09/01/2007
1997 Single Family Series C	25,525	6.80%	6.80%	2029	2029	09/01/2007
1997 Single Family Series D	44,795	5.65%	5.70%	2029	2029	09/01/2007
1997 Single Family Series F	20,000	6.77%	6.77%	2029	2029	09/01/2007
2002 Single Family Series A Junior Lien	10,000	7.01%	7.01%	2025	2026	09/01/2012
2002 Single Family Series A	38,750	5.45%	5.55%	2023	2034	03/01/2012
2002 Single Family Series B	52,695	5.35%	5.55%	2033	2033	03/01/2012
2002 Single Family Series C	12,950	2.80%	5.20%	2004	2017	03/01/2012
2002 Single Family Series D	13,605	2.00%	4.50%	2003	2012	03/01/2012
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/1999
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/2004
1998 RMRB Series A	102,055	4.05%	5.35%	2002	2031	01/01/2009
1998 RMRB Series B	14,300	5.30%	5.30%	2022	2022	01/01/2009
1999 RMRB Series A	25,615	4.80%	5.50%	2018	2021	01/01/2009
1999 RMRB Series B-1	52,260	6.32%	7.10%	2021	2032	07/01/2009
1999 RMRB Series B-2 (COBs)	50,000	3.90%	3.90%	2033	2033	05/01/2000
1999 RMRB Series C	12,150	5.05%	6.25%	2003	2024	07/01/2009
1999 RMRB Series D	26,355	4.30%	6.25%	2000	2021	07/01/2009
2000 RMRB Series A	50,000	5.10%	6.30%	2003	2031	07/01/2010
2000 RMRB Series B	82,975	5.70%	5.70%	2005	2033	07/01/2010
2000 RMRB Series C	13,675	5.82%	5.85%	2011	2025	07/01/2010
2000 RMRB Series D	18,265	4.55%	5.85%	2003	2020	07/01/2010
2000 RMRB Series E	10,000	7.45%	7.45%	2033	2033	07/01/2010
2001 RMRB Series A	52,715	3.15%	5.70%	2004	2033	07/01/2011
2001 RMRB Series B	15,585	5.00%	5.25%	2011	2022	07/01/2011
2001 RMRB Series C	32,225	2.55%	4.63%	2003	2015	07/01/2011
2001 RMRB Series D	300	5.35%	5.35%	2008	2033	07/01/2011
2002 RMRB Series A	42,310	2.25%	5.35%	2004	2034	07/01/2012
2002 RMRB Series B	74,655	1.25%	1.25%	2035	2035	10/01/2003
2003 RMRB Series A	73,630	1.70%	5.00%	2005	2034	01/01/2013
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.13%	2023	2023	05/04/1995
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2023	05/04/1995
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2024	2024	05/04/1995
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/2004
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/2005
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/2005
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/2005
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/2005
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/2005
TOTAL SINGLE FAMILY AND RMRB BONDS	<u>\$1,860,790</u>					

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 3**

**MISCELLANEOUS BOND INFORMATION**

**AUGUST 31, 2003**

**(Amounts in thousands)**

Description of Issue	Original Principal Bonds Issued to Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1984 MF Private Placement (Summerbend)	10,100	(a)		1985	2022	09/01/1986
1987 South Texas Rental Housing	1,400	9.50%		1988	2012	02/01/1988
1993 MF Series A&B(RemHill/HighPt Ref)	26,370	(weekly rates)		2023	2023	02/01/2000
1993 Res Ren Project Revenue Bonds	16,775	3.30%		1994	2024	07/01/2004
1996 MF Series A/B (Brighton's Mark)	10,174	6.13%		2026	2026	01/01/2003
1996 MF Series A/B (Las Colinas)	15,469	5.65%		2026	2026	01/01/2003
1996 MF Series A/B (Braxton's Mark)	14,867	5.81%		2026	2026	01/01/2003
1996 MF Series A-D (DFW Pool)	22,150	6.00%		1997	2026	07/01/2006
1996 MF Series A-D (Harbors/Plumtree)	13,050	5.90%		1997	2026	07/01/2006
1996 MF Series A/B (NHP Foundation)	27,560	5.50%		1997	2027	07/01/2007
1997 MF Series (Meadow Ridge)	13,575	5.05%		2001	2030	02/01/2001
1998 MF Series (Pebble Brook)	10,900	4.95%		2001	2030	06/01/2001
1998 MF Series A-C (Residence Oaks)	8,200	5.98%		2001	2030	05/01/2001
1998 MF Series (Volente Project)	10,850	5.00%		2001	2031	07/01/2001
1998 MF Series (Dallas Oxford Refindg)	10,300	7.25%		2018	2018	01/01/2004
1998 MF Series (Greens of Hickory Trail)	13,500	5.20%		2001	2030	09/01/2008
1999 MF Series (Mayfield)	11,445	5.70%		2001	2031	05/01/2002
1999 MF Series (Woodglen Village)	10,660	7.38%		2002	2039	12/01/2016
2000 MF Series (Timber Point Apts)	8,100	(variable rate)		2003	2032	07/01/2000
2000 MF Series (Oaks at Hampton)	10,060	7.20%		2002	2040	03/01/2017
2000 MF Series (Deerwood Apts)	6,435	5.25%		2003	2032	06/01/2010
2000 MF Series (Creek Point Apts)	7,200	(variable rate)		2004	2032	07/01/2000
2000 MF Series A/B (Parks @ Westmoreland)	9,990	7.20%		2002	2040	07/01/2017
2000 MF Series (Honeycreek)	20,485	7.63%		2004	2035	06/30/2007
2000 MF Series A-C (Highland Meadow Apts)	13,500	6.75%		2004	2033	05/01/2019
2000 MF Series A/B (Greenbridge)	20,085	7.40%		2003	2040	03/01/2014
2000 MF Series A-C (Collingham Park)	13,500	6.72%		2004	2033	05/01/2019
2000 MF Series A/B (Williams Run)	12,850	7.65%		2002	2040	01/01/2011
2000 MF Series A/B (Red Hills Villas)	10,300	8.40%		2003	2040	12/01/2017
2001 MF Series (Bluffview Senior Apts)	10,700	7.65%		2003	2041	05/01/2018
2001 MF Series (Knollwood Villas Apts)	13,750	7.65%		2003	2041	05/01/2018
2001 MF Series (Skyway Villas)	13,250	6.00%		2005	2034	12/01/2011
2001 MF Series A/B (Cobb Park)	7,785	6.77%		2003	2041	07/01/2018
2001 MF Series (Greens Road Apts.)	8,375	5.30%		2004	2034	12/01/2011
2001 MF Series A/B (Meridian Apts.)	14,310	5.45%		2004	2034	12/01/2011
2001 MF Series A/B (Wildwood Apts.)	14,365	5.45%		2004	2034	12/01/2011
2001 MF Series A-C (Fallbrook Apts.)	14,700	6.06%		2005	2034	01/01/2012
2001 MF Series (Oak Hollow Apts.)	8,625	7.00%		2003	2041	11/01/2018
2001 MF Series A/B (Hillside Apts.)	12,900	7.00%		2003	2041	11/01/2018
2002 MF Series (Millstone Apts.)	12,700	5.35%		2005	2035	06/01/2012
2002 MF Series (Sugar Creek Apts.)	11,950	6.00%		2004	2042	01/01/2016
2002 MF Series (West Oaks Apts.)	10,150	7.15%		2004	2042	12/01/2018
2002 MF Series (Park Meadows Apts)	4,600	6.53%		2004	2034	05/01/2012
2002 MF Series (Clarkridge Villas Apts)	14,600	7.00%		2004	2042	08/01/2019
2002 MF Series (Hickory Trace Apts)	11,920	7.00%		2004	2042	12/01/2019
2002 MF Series (Green Crest Apts)	12,500	7.00%		2004	2042	11/01/2019
2002 MF Series A/B (Ironwood Crossing)	16,970	5.50%		2005	2042	10/01/2027
2002 MF Series (Woodway Village Apts)	9,100	4.95%		2006	2023	01/01/2013
2003 MF Series A/B (Reading Road)	12,200	(c)		2007	2036	01/01/2004
2003 MF Series A/B (North Vista Apts)	14,000	4.10%		2006	2036	06/01/2013
2003 MF Series A/B (West Virginia Apts)	9,450	4.15%		2006	2036	06/01/2013
2003 MF Series A/B (Sphinx @ Murdeaux)	15,085	3.55%		2005	2042	06/20/2013
2003 MF Series A/B (Primrose Houston School)	16,900	5.50%		2006	2036	07/01/2003
2003 MF Series A/B (Timber Oaks Apts)	13,200	6.75%		2005	2043	06/01/2020
2003 MF Series A/B (Ash Creek Apts)	16,375	5.60%		2006	2036	10/01/2003
2003 MF Series A/B (Peninsula Apts)	12,400	4.25%		2007	2024	10/01/2013
2003 MF Series A (Evergreen @ Mesquite)	11,000	6.60%		2006	2043	09/01/2020

TOTAL MULTIFAMILY BONDS

723,710

TOTAL BONDS ISSUED

\$2,584,500

(Concluded)

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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**NOTES TO SCHEDULE 3  
AUGUST 31, 2003**

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FOOTNOTES:

- a. Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.
- b. The taxable bonds shall be subject to redemption prior to maturity in whole or any part on any interest payment date after the completion date from the proceeds of an optional prepayment of the loan by the borrower.
- c. Variable rate not to exceed the maximum rate permitted by applicable law, currently 12% per annum.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 4**

**CHANGES IN BOND INDEBTEDNESS  
AUGUST 31, 2003**

Description of Issue	Bonds Outstanding September 1, 2002	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2003	Amounts Due Within One Year
1991 Single Family Series A	\$ 13,605,000			\$ 13,605,000		
1995 Single Family Series A	66,760,000			11,990,000	\$ 54,770,000	
1995 Single Family Series C	32,595,000			12,110,000	20,485,000	
1996 Single Family Series A	9,975,000				9,975,000	
1996 Single Family Series B	15,465,000			6,255,000	9,210,000	
1996 Single Family Series D	56,820,000			9,135,000	47,685,000	
1996 Single Family Series E	51,835,000		\$2,180,000	9,085,000	40,570,000	\$ 1,940,000
1997 Single Family Series A	42,865,000			775,000	42,090,000	
1997 Single Family Series B	9,510,000				9,510,000	
1997 Single Family Series C	15,310,000			3,875,000	11,435,000	
1997 Single Family Series D	41,755,000			5,000,000	36,755,000	
1997 Single Family Series F	13,680,000			2,845,000	10,835,000	
2002 Single Family Series A Junior Lien	10,000,000				10,000,000	
2002 Single Family Series A	38,750,000				38,750,000	
2002 Single Family Series B	52,695,000				52,695,000	
2002 Single Family Series C	12,950,000				12,950,000	
2002 Single Family Series D	13,605,000			1,750,000	11,855,000	930,000
1989 RMRB Series A	40,000			40,000		
1989 RMRB Series B	45,000			45,000		
1998 RMRB Series A	90,625,000		1,825,000	6,620,000	82,180,000	1,850,000
1998 RMRB Series B	13,560,000			450,000	13,110,000	
1999 RMRB Series A	16,370,000			3,770,000	12,600,000	
1999 RMRB Series B-1	49,520,000			2,070,000	47,450,000	
1999 RMRB Series C	12,150,000		95,000	90,000	11,965,000	110,000
1999 RMRB Series D	12,540,000		265,000	11,900,000	375,000	
2000 RMRB Series A	46,210,000		505,000	7,040,000	38,665,000	460,000
2000 RMRB Series B	81,955,000			3,180,000	78,775,000	
2000 RMRB Series C	13,425,000			635,000	12,790,000	
2000 RMRB Series D	17,815,000		395,000	1,150,000	16,270,000	835,000
2000 RMRB Series E	9,215,000			3,340,000	5,875,000	
2001 RMRB Series A	52,715,000			1,465,000	51,250,000	805,000
2001 RMRB Series B	15,585,000			520,000	15,065,000	
2001 RMRB Series C	32,225,000		1,795,000	3,805,000	26,625,000	1,820,000
2001 RMRB Series D	300,000			65,000	235,000	
2002 RMRB Series A		\$ 42,310,000		5,000	42,305,000	665,000
2002 RMRB Series B		74,655,000		74,655,000		
2003 RMRB Series A		73,630,000			73,630,000	
1992 Coll Home Mtg Rev Bds Series C	58,300,000			16,100,000	42,200,000	
1993 SF MRB CHMRB Series A	5,585,000			1,495,000	4,090,000	
1993 SF MRB CHMRB Series B	6,760,000			2,105,000	4,655,000	
1993 SF MRB CHMRB Series C	7,735,000			2,985,000	4,750,000	
1993 SF MRB CHMRB Series D	3,440,000			1,005,000	2,435,000	
1993 SF MRB CHMRB Series E	3,060,000			1,020,000	2,040,000	
1994 SF MRB CHMRB Series A	20,860,000			8,505,000	12,355,000	
1994 SF MRB CHMRB Series B	19,330,000			6,490,000	12,840,000	
1994 SF MRB CHMRB Series C	9,985,000			4,250,000	5,735,000	
1995 SF MRRB CHMRB Series A	680,000			590,000	90,000	
<b>Total Single Family Bonds</b>	<b>\$1,098,205,000</b>	<b>\$ 190,595,000</b>	<b>\$7,060,000</b>	<b>\$241,815,000</b>	<b>\$1,039,925,000</b>	<b>\$ 9,415,000</b>
1984 MF Private Placement (Summerbend)	\$ 8,120,000				\$ 8,120,000	
1987 MF Series (South Texas Rental Housing)	963,910		\$ 57,677		906,233	\$ 63,000
1993 MF Series A&B (Rem Hill/High Pt)	12,490,000				12,490,000	
1993 MF Res Ren Project Revenue Bonds (NCHM)	14,495,000		350,000		14,145,000	
1996 MF Series A&B (Brighton's Mark)	8,075,000				8,075,000	
1996 MF Series A&B (Marks of 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 (Dallas-Ft Worth Pool)	20,555,000		325,000		20,230,000	415,000
1996 MF Series A-D (Harbors/Plumtree)	12,035,000		210,000		11,825,000	225,000
1996 MF Series A&B (NHP Foundation)	25,475,000		460,000		25,015,000	490,000
1997 MF Series (Meadow Ridge Apartments)	13,130,000		180,000		12,950,000	190,000

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**SCHEDULE 4**

**CHANGES IN BOND INDEBTEDNESS  
AUGUST 31, 2003**

Description of Issue	Bonds Outstanding September 1, 2002	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2003	Amounts Due Within One Year
1998 MF Series (Pebble Brook Apartments)	\$ 10,700,000		\$ 145,000		\$ 10,555,000	\$ 150,000
1998 MF Series A-C (Residence at the Oaks)	8,042,000		113,000		7,929,000	118,000
1998 MF Series (Volente Project)	10,630,000		135,000		10,495,000	150,000
1998 MF Series (Dallas-Oxford Rfdg)	10,300,000				10,300,000	
1998 MF Series A&B (Greens of Hickory Trail)	13,280,000		150,000		13,130,000	190,000
1999 MF Series A-C (Mayfield)	11,295,000		158,000		11,137,000	167,000
1999 MF Series (Woodglen Village)	10,652,724		45,580		10,607,144	49,000
2000 MF Series (Timber Point Apts)	8,100,000				8,100,000	200,000
2000 MF Series (Oaks @ Hampton)	10,041,362		47,680		9,993,682	52,000
2000 MF Series (Deerwood Apts)	6,435,000		40,000		6,395,000	75,000
2000 MF Series (Creek Point Apts)	7,200,000				7,200,000	100,000
2000 MF Series A/B (Parks @ Westmoreland)	9,986,291		46,738		9,939,553	51,000
2000 MF Series (Honeycreek)	20,485,000				20,485,000	9,000
2000 MF Series A-C (Highland Meadow Apts)	13,500,000				13,500,000	145,000
2000 MF Series A/B (Greenbridge)	20,085,000		37,807		20,047,193	75,000
2000 MF Series A-C (Collingham Park)	13,500,000				13,500,000	72,000
2000 MF Series A/B (Williams Run)	12,767,244		56,108	\$ 40,000	12,671,136	67,000
2000 MF Series A/B (Red Hills Villas)	10,300,000		27,858		10,272,142	40,000
2001 MF Series (Bluffview Senior Apts)	10,700,000		13,888		10,686,112	44,000
2001 MF Series (Knollwood Villas Apts)	13,750,000		17,845		13,732,155	56,000
2001 MF Series (Skyway Villas)	13,250,000				13,250,000	
2001 MF Series A/B (Cobb Park)	7,785,000		2,283		7,782,717	29,000
2001 MF Series (Greens Road Apts.)	8,375,000				8,375,000	
2001 MF Series (Meridian Apts.)	14,310,000				14,310,000	
2001 MF Series (Wildwood Apts.)	14,365,000				14,365,000	
2001 MF Series A-C (Fallbrook Apts.)	14,700,000				14,700,000	
2001 MF Series (Oak Hollow Apts.)	8,625,000				8,625,000	30,000
2001 MF Series A/B (Hillside Apts.)	12,900,000				12,900,000	39,000
2002 MF Series (Millstone Apts.)	12,700,000				12,700,000	
2002 MF Series (Sugar Creek Apts.)	11,950,000				11,950,000	30,000
2002 MF Series (West Oaks Apts.)	10,150,000				10,150,000	30,000
2002 MF Series (Park Meadows Apts.)	4,600,000				4,600,000	
2002 MF Series (Clarkridge Villas Apts)		\$ 14,600,000			14,600,000	
2002 MF Series (Hickory Trace Apts)		11,920,000			11,920,000	
2002 MF Series (Green Crest Apts)		12,500,000			12,500,000	
2002 MF Series (Iron Wood Crossing)		16,970,000			16,970,000	
2002 MF Series (Woodway Crossing)		9,100,000			9,100,000	
2003 MF Series (Reading Road)		12,200,000			12,200,000	
2003 MF Series (North Vista Apts)		14,000,000			14,000,000	
2003 MF Series (West Virginia Apts)		9,450,000			9,450,000	
2003 MF Series (Sphinx@Murdeaux)		15,085,000			15,085,000	
2003 MF Series (Primrose Houston)		16,900,000			16,900,000	
2003 MF Series (Timber Oaks Apts)		13,200,000			13,200,000	
2003 MF Series (Ash Creek Apts)		16,375,000			16,375,000	
2003 MF Series (Peninsula Apts)		12,400,000			12,400,000	
2003 MF Series (Evergreen @ Mesquite)		11,000,000			11,000,000	
Total Multi-Family Bonds	<u>509,941,743</u>	<u>185,700,000</u>	<u>2,619,464</u>	<u>40,000</u>	<u>692,982,279</u>	<u>3,351,000</u>
TOTAL BONDS OUTSTANDING	<u>\$1,608,146,743</u>	<u>\$ 376,295,000</u>	<u>\$9,679,464</u>	<u>\$241,855,000</u>	<u>\$1,732,907,279</u>	<u>\$12,766,000</u>

FOOTNOTES:

(a) Bonds outstanding balance at August 31, 2003 does not include unamortized premium or discounts.

Bonds outstanding per schedule	\$1,732,907,279
Unamortized (discount) premium:	
Single-family	1,491,789
RMRB	4,557,655
CHMRB	1,002,828
Multifamily	(434,514)
Unamortized deferred gain (loss) on refunding:	
Single-family	(3,593,882)
RMRB	(2,562,435)

Bonds outstanding per statement of net assets \$1,733,368,720

(Concluded)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—  
REVENUE BOND PROGRAM**

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)  
AUGUST 31, 2003  
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
1995 Single Family, Series A	Principal					
1995 Single Family, Series A	Interest	\$ 3,354	\$ 3,354	\$ 3,354	\$ 3,354	\$ 3,354
1995 Single Family, Series C	Principal				145	305
1995 Single Family, Series C	Interest	1,576	1,576	1,576	1,571	1,549
1996 Single Family, Series A	Principal					
1996 Single Family, Series A	Interest	628	628	628	628	628
1996 Single Family, Series B	Principal					
1996 Single Family, Series B	Interest	553	553	553	553	553
1996 Single Family, Series D	Principal					
1996 Single Family, Series D	Interest	2,955	2,955	2,955	2,955	2,955
1996 Single Family, Series E	Principal	1,940	2,010	2,115	2,190	2,275
1996 Single Family, Series E	Interest	2,256	2,153	2,043	1,926	1,802
1997 Single Family, Series A	Principal					
1997 Single Family, Series A	Interest	2,376	2,376	2,376	2,376	2,376
1997 Single Family, Series B	Principal					
1997 Single Family, Series B	Interest	518	518	518	518	518
1997 Single Family, Series C	Principal					
1997 Single Family, Series C	Interest	778	778	778	778	778
1997 Single Family, Series D	Principal					
1997 Single Family, Series D	Interest	2,086	2,086	2,086	2,086	2,086
1997 Single Family, Series F	Principal					
1997 Single Family, Series F	Interest	734	734	734	734	734
2002 Single Family Series A Junior Lien	Principal					
2002 Single Family Series A Junior Lien	Interest	701	701	701	701	701
2002 Single Family Series A	Principal					
2002 Single Family Series A	Interest	2,133	2,133	2,133	2,133	2,133
2002 Single Family Series B	Principal		880	925	980	1,035
2002 Single Family Series B	Interest	2,855	2,826	2,777	2,726	2,672
2002 Single Family Series C	Principal		435	460	485	515
2002 Single Family Series C	Interest	620	608	593	575	555
2002 Single Family Series D	Principal	930	1,060	1,085	1,120	1,155
2002 Single Family Series D	Interest	414	388	355	318	277
Total Single Family Bonds		<u>27,407</u>	<u>28,752</u>	<u>28,745</u>	<u>28,852</u>	<u>28,956</u>
1998 Residential Mtg Revenue Bonds, Series A	Principal	1,850	1,920	2,010	2,095	2,185
1998 Residential Mtg Revenue Bonds, Series A	Interest	4,114	4,033	3,947	3,855	3,757
1998 Residential Mtg Revenue Bonds, Series B	Principal					
1998 Residential Mtg Revenue Bonds, Series B	Interest	695	695	695	695	695
1999 Residential Mtg Revenue Bonds, Series A	Principal					
1999 Residential Mtg Revenue Bonds, Series A	Interest	638	638	638	638	638
1999 Residential Mtg Revenue Bonds, Series B-1	Principal					
1999 Residential Mtg Revenue Bonds, Series B-1	Interest	3,118	3,118	3,118	3,118	3,118
1999 Residential Mtg Revenue Bonds, Series C	Principal	110	125	125	140	155
1999 Residential Mtg Revenue Bonds, Series C	Interest	738	732	725	718	711

**SCHEDULE 5**

<b>2009-13</b>	<b>2014-18</b>	<b>2019-23</b>	<b>2024-28</b>	<b>2029-33</b>	<b>2034-38</b>	<b>2039-43</b>	<b>Total Required</b>
	\$ 5,565		\$ 49,205				\$ 54,770
\$ 16,770	16,429	\$ 15,130	10,587				75,686
1,900	18,135						20,485
7,353	3,819						19,020
				\$ 9,975			9,975
3,140	3,140	3,140	3,151				15,711
	9,210						9,210
2,765	1,930						7,460
		3,140	10,255	34,290			47,685
14,775	14,775	14,348	13,603				72,276
6,235	23,805						40,570
7,449	4,772						22,401
	11,915			30,175			42,090
11,880	8,750	8,750	8,750	1,749			51,759
		9,510					9,510
2,590	2,590	264					8,034
				11,435			11,435
3,890	3,890	3,890	3,890	767			20,217
				36,755			36,755
10,430	10,430	10,430	10,430	1,563			53,713
				10,835			10,835
3,670	3,670	3,670	3,670	722			19,072
			10,000				10,000
3,505	3,505	3,505	1,577				15,597
	990	11,775	12,675	10,870	2,440		38,750
10,665	10,638	8,710	5,078	2,112	11		47,879
5,515	4,210	5,195	10,495	20,865	2,595		52,695
12,440	11,180	9,923	8,055	3,433			58,887
3,750	7,305						12,950
2,366	798						6,115
6,505							11,855
595							2,347
<u>138,188</u>	<u>181,451</u>	<u>111,380</u>	<u>161,421</u>	<u>175,546</u>	<u>5,046</u>	<u>-</u>	<u>915,744</u>
4,700	15,725			51,695			82,180
17,610	17,223	13,235	13,235	4,456			85,465
		13,110					13,110
3,475	3,475	2,434					12,859
	7,905	4,695					12,600
3,190	3,126	598					10,104
		15,275		32,175			47,450
15,590	15,590	13,239	10,165	7,798			77,972
1,010	255		10,045				11,965
3,400	3,153	3,140	522				13,839

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—  
REVENUE BOND PROGRAM**

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)  
AUGUST 31, 2003  
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
1999 Residential Mtg Revenue Bonds, Series D	Principal					
1999 Residential Mtg Revenue Bonds, Series D	Interest	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23
2000 Residential Mtg Revenue Bonds, Series A	Principal	460	490	520	555	575
2000 Residential Mtg Revenue Bonds, Series A	Interest	2,373	2,349	2,322	2,293	2,261
2000 Residential Mtg Revenue Bonds, Series B	Principal		12,000			
2000 Residential Mtg Revenue Bonds, Series B	Interest	4,575	4,459	3,877	3,877	3,877
2000 Residential Mtg Revenue Bonds, Series C	Principal					
2000 Residential Mtg Revenue Bonds, Series C	Interest	747	747	747	747	747
2000 Residential Mtg Revenue Bonds, Series D	Principal	835	885	935	990	1,065
2000 Residential Mtg Revenue Bonds, Series D	Interest	831	791	748	702	652
2000 Residential Mtg Revenue Bonds, Series E	Principal					
2000 Residential Mtg Revenue Bonds, Series E	Interest	438	438	438	438	438
2001 Residential Mtg Revenue Bonds, Series A	Principal	805	860	915	975	1,035
2001 Residential Mtg Revenue Bonds, Series A	Interest	2,757	2,717	2,673	2,626	2,574
2001 Residential Mtg Revenue Bonds, Series B	Principal					
2001 Residential Mtg Revenue Bonds, Series B	Interest	776	776	776	776	776
2001 Residential Mtg Revenue Bonds, Series C	Principal	1,820	1,880	1,960	2,035	2,125
2001 Residential Mtg Revenue Bonds, Series C	Interest	1,047	989	924	851	770
2001 Residential Mtg Revenue Bonds, Series D	Principal					5
2001 Residential Mtg Revenue Bonds, Series D	Interest	13	13	13	13	13
2002 Residential Mtg Revenue Bonds, Series A	Principal	665	690	720	740	770
2002 Residential Mtg Revenue Bonds, Series A	Interest	2,183	2,155	2,124	2,091	2,057
2003 Residential Mtg Revenue Bonds, Series A	Principal		1,190	1,215	1,245	1,280
2003 Residential Mtg Revenue Bonds, Series A	Interest	<u>3,506</u>	<u>3,488</u>	<u>3,449</u>	<u>3,406</u>	<u>3,360</u>
Total Residential Mtg Revenue Bonds		<u>35,117</u>	<u>48,201</u>	<u>35,637</u>	<u>35,642</u>	<u>35,662</u>
1992 Coll Home Mtg Rev Bonds, Series C	Principal					
1992 Coll Home Mtg Rev Bonds, Series C	Interest	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>
Total Coll Home Mtg Revenue Bonds		<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>
1993 SF MRB CHMRB, Series A	Principal					
1993 SF MRB CHMRB, Series A	Interest	239	239	239	239	239
1993 SF MRB CHMRB, Series B	Principal					
1993 SF MRB CHMRB, Series B	Interest	308	308	308	308	308
1993 SF MRB CHMRB, Series C	Principal					
1993 SF MRB CHMRB, Series C	Interest	317	317	317	317	317
1993 SF MRB CHMRB, Series D	Principal					
1993 SF MRB CHMRB, Series D	Interest	165	165	165	165	165
1993 SF MRB CHMRB, Series E	Principal					
1993 SF MRB CHMRB, Series E	Interest	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>
Total Single Family MRB 1993 CHMRB		<u>1,169</u>	<u>1,169</u>	<u>1,169</u>	<u>1,169</u>	<u>1,169</u>
1994 SF MRB CHMRB, Series A	Principal					
1994 SF MRB CHMRB, Series A	Interest	846	846	846	846	846

**SCHEDULE 5**

<b>2009-13</b>	<b>2014-18</b>	<b>2019-23</b>	<b>2024-28</b>	<b>2029-33</b>	<b>2034-38</b>	<b>2039-43</b>	<b>Total Required</b>
		\$ 375					\$ 375
\$ 115	\$ 115	73					418
620		8,220		\$ 27,225			38,665
11,056	\$ 11,035	8,716	\$ 8,485	4,721			55,611
				66,775			78,775
19,385	19,385	19,385	19,385	15,845			114,050
		9,115	3,675				12,790
3,735	3,735	2,047	287				13,539
6,450	3,240	1,870					16,270
2,353	741	148					6,966
				5,875			5,875
2,190	2,190	2,190	2,190	1,889			12,839
3,380	2,380	4,935	15,225	20,740			51,250
12,162	11,484	10,672	7,855	3,046			58,566
2,810	5,960	6,295					15,065
3,685	2,486	714					10,765
12,470	4,335						26,625
2,401	169						7,151
45	45	45	40	55			235
56	44	31	21	6			223
4,380	5,500	6,905	8,860	11,720	\$ 1,355		42,305
9,684	8,428	6,820	4,782	2,051	25		42,400
7,000	8,945	11,345	16,080	20,570	4,760		73,630
15,970	14,211	11,795	8,488	3,953	140		71,766
<u>168,922</u>	<u>170,880</u>	<u>177,422</u>	<u>129,340</u>	<u>280,595</u>	<u>6,280</u>	<u>-</u>	<u>1,123,698</u>
			42,200				42,200
<u>14,360</u>	<u>14,360</u>	<u>14,360</u>	2,867				60,307
<u>14,360</u>	<u>14,360</u>	<u>14,360</u>	45,067	-	-	-	102,507
			4,090				4,090
1,195	1,195	1,195	524				5,304
			4,655				4,655
1,540	1,540	1,540	671				6,831
			4,750				4,750
1,585	1,585	1,585	693				7,033
			2,435				2,435
825	825	825	349				3,649
			2,040				2,040
<u>700</u>	<u>700</u>	<u>700</u>	298				3,098
<u>5,845</u>	<u>5,845</u>	<u>5,845</u>	16,415	-	-	-	39,795
			12,355				12,355
4,230	4,230	4,230	2,686				19,606

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—  
REVENUE BOND PROGRAM**

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)  
AUGUST 31, 2003  
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
1994 SF MRB CHMRB, Series B	Principal					
1994 SF MRB CHMRB, Series B	Interest	\$ 822	\$ 822	\$ 822	\$ 822	\$ 822
1994 SF MRB CHMRB, Series C	Principal					
1994 SF MRB CHMRB, Series C	Interest	358	358	358	358	358
Total Single Family MRB 1994 CHMRB		2,026	2,026	2,026	2,026	2,026
1995 SF MRRB CHMRB, Series A	Principal					
1995 SF MRRB CHMRB, Series A	Interest	6	6	6	6	6
Total Single Family MRB 1995 CHMRB		6	6	6	6	6
1984 MF Private Placement (Summerbend)	Principal					
1984 MF Private Placement (Summerbend)	Interest	735	735	735	735	735
1987 MF Series (South Texas Rental Housing)	Principal	63	70	77	84	93
1987 MF Series (South Texas Rental Housing)	Interest	83	77	70	63	54
1993 MF Series A&B (Rem Hill/High Pt)	Principal					
1993 MF Series A&B (Rem Hill/High Pt)	Interest	500	500	500	500	500
1993 MF Res Ren Project Revenue Bonds (NCHM)	Principal					2,095
1993 MF Res Ren Project Revenue Bonds (NCHM)	Interest	813	813	813	813	813
1996 MF Series A&B (Brighton's Mark)	Principal					
1996 MF Series A&B (Brighton's Mark)	Interest	495	495	495	495	495
1996 MF Series A&B (Marks of Las Colinas)	Principal					
1996 MF Series A&B (Marks of Las Colinas)	Interest	840	840	840	840	840
1996 MF Series A&B (Braxton's Mark)	Principal					
1996 MF Series A&B (Braxton's Mark)	Interest	829	829	829	829	829
1996 MF Series A-D (Dallas-Ft Worth Pool)	Principal	415	405	435	460	495
1996 MF Series A-D (Dallas-Ft Worth Pool)	Interest	1,409	1,384	1,357	1,328	1,295
1996 MF Series A-D (Harbors/Plumtree)	Principal	225	240	255	275	295
1996 MF Series A-D (Harbors/Plumtree)	Interest	821	807	791	774	755
1996 MF Series A&B (NHP Foundation)	Principal	490	525	545	585	615
1996 MF Series A&B (NHP Foundation)	Interest	1,577	1,550	1,519	1,485	1,448
1997 MF Series (Meadow Ridge Apartments)	Principal	190	200	215	225	120
1997 MF Series (Meadow Ridge Apartments)	Interest	711	701	691	680	669
1998 MF Series (Pebble Brook Apartments)	Principal	150	160	170	180	190
1998 MF Series (Pebble Brook Apartments)	Interest	577	570	562	553	544
1998 MF Series A-C (Residence At The Oaks)	Principal	118	128	134	141	151
1998 MF Series A-C (Residence At The Oaks)	Interest	472	464	457	448	440
1998 MF Series (Volente Project)	Principal	150	160	165	175	185
1998 MF Series (Volente Project)	Interest	579	571	563	555	546
1998 MF Series (Dallas-Oxford Rfdg)	Principal					
1998 MF Series (Dallas-Oxford Rfdg)	Interest	747	747	747	747	747
1998 MF Series A&B (Greens Of Hickory Trail)	Principal	190	185	210	220	240
1998 MF Series A&B (Greens Of Hickory Trail)	Interest	703	692	681	668	654
1999 MF Series A-C (Mayfield)	Principal	167	177	187	199	209
1999 MF Series A-C (Mayfield)	Interest	630	620	607	599	587



**SCHEDULE 5**

<b>2009-13</b>	<b>2014-18</b>	<b>2019-23</b>	<b>2024-28</b>	<b>2029-33</b>	<b>2034-38</b>	<b>2039-43</b>	<b>Total Required</b>
			\$ 12,840				\$ 12,840
\$ 4,110	\$ 4,110	\$ 4,110	2,597				19,037
			5,735				5,735
1,790	1,790	1,790	1,144				8,304
10,130	10,130	10,130	25,002	-	-	-	65,522
	90						90
30	9						69
30	99	-	-	-	-	-	159
		8,120					8,120
3,675	3,675	3,193					14,218
							906
519							464
117							
		12,490					12,490
2,500	2,500	2,491					9,991
	3,440		8,610				14,145
3,475	2,691	2,495	254				12,980
			8,075				8,075
2,475	2,475	2,475	1,485				11,385
			14,870				14,870
4,200	4,200	4,200	2,523				19,323
			14,274				14,274
4,145	4,145	4,145	2,495				19,075
3,035	4,260	5,995	4,730				20,230
5,902	4,665	2,910	605				20,855
1,790	2,500	3,480	2,765				11,825
3,437	2,718	1,699	356				12,158
3,755	5,115	7,010	6,375				25,015
6,590	5,223	3,335	840				23,567
1,455	2,005			8,540			12,950
3,152	2,681	2,370	2,370	908			14,933
1,145	1,575	2,150	2,960	1,875			10,555
2,559	2,198	1,696	1,002	161			10,422
899				6,358			7,929
2,046	1,905	1,905	1,905	859			10,901
1,135	1,565	2,140	2,955	1,865			10,495
2,560	2,189	1,681	975	142			10,361
	10,300						10,300
3,735	3,735	494					11,699
1,455	2,000	2,710	3,650	2,270			13,130
3,033	2,565	1,964	1,148	178			12,286
1,247	1,653	2,196	2,914	2,188			11,137
2,737	2,325	1,782	1,058	194			11,139

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—  
REVENUE BOND PROGRAM**

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)  
AUGUST 31, 2003  
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
1999 MF Series (Woodglen Village)	Principal	\$ 49	\$ 53	\$ 57	\$ 61	\$ 66
1999 MF Series (Woodglen Village)	Interest	781	777	773	769	764
2000 MF Series (Timber Point Apts)	Principal	200	100	100	100	100
2000 MF Series (Timber Point Apts)	Interest	4,322	4,268	4,214	4,493	3,745
2000 MF Series A&B (Oaks At Hampton)	Principal	52	57	62	68	75
2000 MF Series A&B (Oaks At Hampton)	Interest	726	721	715	710	703
2000 MF Series (Deerwood Apts)	Principal	75	75	85	85	95
2000 MF Series (Deerwood Apts)	Interest	400	396	392	387	383
2000 MF Series (Creek Point Apts)	Principal	100	100	100	100	100
2000 MF Series (Creek Point Apts)	Interest	3,644	3,605	3,563	3,511	3,460
2000 MF Series (Parks At Westmoreland)	Principal	51	56	61	67	73
2000 MF Series (Parks At Westmoreland)	Interest	845	840	835	829	823
2000 MF Series (Honey Creek)	Principal	9	113	122	131	142
2000 MF Series (Honey Creek)	Interest	1,562	1,557	1,548	1,539	1,529
2000 A/C MF Series (Highland Meadows)	Principal	145	155	165	177	190
2000 A/C MF Series (Highland Meadows)	Interest	914	902	889	875	876
2000 A&B MF Series (Greenbridge)	Principal	75	83	92	119	109
2000 A&B MF Series (Greenbridge)	Interest	1,487	1,479	1,469	1,459	1,451
2000 A/C MF Series (Collingham Park)	Principal	72	151	162	172	182
2000 A/C MF Series (Collingham Park)	Interest	913	902	890	877	864
2000 A&B MF Series (Williams Run)	Principal	67	67	72	78	84
2000 A&B MF Series (Williams Run)	Interest	967	962	956	950	944
2000 A&B MF Series (Red Hills Villas)	Principal	40	44	49	54	59
2000 A&B MF Series (Red Hills Villas)	Interest	865	861	857	852	847
2001a MF Series (Bluffview Sr. Apts.)	Principal	44	47	51	55	59
2001a MF Series (Bluffview Sr. Apts.)	Interest	917	913	909	905	900
2001a MF Series (Knollwood Villas Apts)	Principal	56	61	66	71	77
2001a MF Series (Knollwood Villas Apts)	Interest	1,182	1,179	1,174	1,168	1,162
2001a MF Series (Skyway Villas)	Principal		135	185	195	205
2001a MF Series (Skyway Villas)	Interest	737	734	725	715	705
2001a MF Series (Cobb Park)	Principal	29	32	35	38	42
2001a MF Series (Cobb Park)	Interest	617	614	611	608	604
2001 MF Series (Greens Road Apts.)	Principal		100	105	110	120
2001 MF Series (Greens Road Apts.)	Interest	449	446	441	435	429
2001 MF Series (Meridian Apts.)	Principal		150	165	175	185
2001 MF Series (Meridian Apts.)	Interest	838	833	822	811	799
2001 MF Series (Wildwood Apts.)	Principal		245	170	175	190
2001 MF Series (Wildwood Apts.)	Interest	827	818	807	796	783
2001 A/C MF Series (Fallbrook Apts.)	Principal		86	180	193	206
2001 A/C MF Series (Fallbrook Apts.)	Interest	899	898	887	875	861
2001 MF Series (Oak Hollow Apts.)	Principal	30	43	46	49	53
2001 MF Series (Oak Hollow Apts.)	Interest	680	677	673	670	666
2001 A/B MF Series (Hillside Apts.)	Principal	39	57	63	69	75
2001 A/B MF Series (Hillside Apts.)	Interest	1,023	1,018	1,012	1,006	1,000

**SCHEDULE 5**

	<b>2009-13</b>	<b>2014-18</b>	<b>2019-23</b>	<b>2024-28</b>	<b>2029-33</b>	<b>2034-38</b>	<b>2039-43</b>	<b>Total Required</b>
\$	412	\$ 596	\$ 860	\$ 1,242	\$ 1,795	\$ 2,593	\$ 2,823	\$ 10,607
	3,736	3,552	3,287	2,905	2,353	1,555	235	21,487
	800	1,000	1,500	2,100	2,100			8,100
	19,310	16,881	13,470	8,703	2,269			81,675
	482	693	993	1,422	2,036	2,914	1,140	9,994
	3,407	3,196	2,897	2,468	1,854	974	67	18,438
	435		1,305		4,240			6,395
	1,827	1,770	1,521	1,355	1,223			9,654
	700	900	1,300	1,900	1,900			7,200
	16,369	14,353	11,512	7,501	2,021			69,539
	470	674	965	1,381	1,977	2,829	1,335	9,939
	4,003	3,761	3,419	2,926	2,222	1,215	113	21,831
	895	1,309	1,915	2,800	4,093	8,956		20,485
	7,452	7,033	6,424	5,534	4,231	1,113		39,522
	1,161	1,624	2,270	3,174	4,439			13,500
	4,084	3,617	2,962	2,045	782			17,946
	742	1,074	1,552	2,246	3,246	4,694	6,015	20,047
	7,101	6,768	6,287	5,589	4,582	3,125	725	41,522
	1,215	1,644	2,226	3,037	4,161	478		13,500
	4,362	3,913	3,214	2,262	959	5		19,161
	534	781	1,145	1,676	2,454	3,592	2,121	12,671
	4,608	4,359	3,993	3,459	2,676	1,530	183	25,587
	386	562	812	1,176	1,700	2,458	2,932	10,272
	4,138	3,941	3,655	3,244	2,649	1,788	437	24,134
	374	547	799	1,166	1,704	2,489	3,351	10,686
	4,411	4,216	3,930	3,513	2,905	2,018	589	26,126
	481	704	1,026	1,499	2,191	3,199	4,301	13,732
	5,707	5,475	5,134	4,640	3,916	2,857	895	34,489
	1,205	1,585	2,075	2,740	3,630	1,295		13,250
	3,345	2,965	2,460	1,788	895	54		15,123
	277	404	573	844	1,223	1,768	2,518	7,783
	2,950	2,815	2,622	2,345	1,939	1,355	422	17,502
	730	985	1,340	1,810	2,480	595		8,375
	2,036	1,810	1,505	1,087	512	16		9,166
	1,145	1,620	2,255	3,040	4,090	1,485		14,310
	3,786	3,330	2,717	1,978	998	62		16,974
	1,165	1,635	2,245	3,015	4,055	1,470		14,365
	3,705	3,251	2,684	1,961	991	61		16,684
	1,257	1,704	2,296	3,095	4,170	1,513		14,700
	4,076	3,624	3,026	2,213	1,120	70		18,549
	328	464	659	936	1,323	1,875	2,819	8,625
	3,257	3,102	2,881	2,569	2,127	1,499	518	19,319
	482	682	970	1,373	1,947	2,760	4,383	12,900
	4,884	4,656	4,333	3,874	3,223	2,299	823	29,151

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—  
REVENUE BOND PROGRAM**

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)  
AUGUST 31, 2003  
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
2002 MF Series (Millstone Apts.)	Principal		\$ 80	\$ 165	\$ 180	\$ 195
2002 MF Series (Millstone Apts.)	Interest	\$ 699	698	690	680	670
2002 MF Series (Sugar Creek Apts.)	Principal	30	65	70	70	80
2002 MF Series (Sugar Creek Apts.)	Interest	717	714	710	705	701
2002 MF Series (West Oaks Apts.)	Principal	30	48	52	56	60
2002 MF Series (West Oaks Apts.)	Interest	760	757	753	749	745
2002 MF Series (Park Meadows Apts.)	Principal		50	55	60	60
2002 MF Series (Park Meadows Apts.)	Interest	300	299	295	292	288
2002 Series (Clarkridge Villas Apts)	Principal		69	74	79	85
2002 Series (Clarkridge Villas Apts)	Interest	1,022	1,019	1,014	1,009	1,003
2002 Series A (Hickory Trace Apts)	Principal		47	60	64	69
2002 Series A (Hickory Trace Apts)	Interest	834	833	829	825	820
2002 Series A (Green Crest Apts)	Principal		49	63	67	72
2002 Series A (Green Crest Apts)	Interest	875	873	869	865	860
2002 Series A/B (Iron Wood Crossing)	Principal			51	67	73
2002 Series A/B (Iron Wood Crossing)	Interest	1,222	1,222	1,220	1,215	1,209
2002 Series A (Woodway Village)	Principal			105	115	125
2002 Series A (Woodway Village)	Interest	469	469	466	461	455
2003 Series A/B (Reading Road)	Principal				120	120
2003 Series A/B (Reading Road)	Interest	600	651	651	650	644
2003 Series A/B (North Vista)	Principal				200	210
2003 Series A/B (North Vista)	Interest	699	699	699	694	685
2003 Series A/B (West Virginia)	Principal				135	145
2003 Series A/B (West Virginia)	Interest	472	472	472	469	463
2003 Series A/B (Sphinx @ Murdeaux)	Principal		70	140	160	165
2003 Series A/B (Sphinx @ Murdeaux)	Interest	1,457	1,982	1,987	1,993	1,998
2003 Series A/B (Primrose Houston)	Principal			11	71	77
2003 Series A/B (Primrose Houston)	Interest	1,164	1,164	1,164	1,161	1,155
2003 Series A/B (Timber Oaks)	Principal		4	47	51	56
2003 Series A/B (Timber Oaks)	Interest	937	937	934	930	925
2003 Series A/B (Ash Creek Apts)	Principal				59	76
2003 Series A/B (Ash Creek Apts)	Interest	1,100	1,100	1,100	1,098	1,092
2003 Series A/B (Peninsula Apts)	Principal				80	160
2004 Series A/B (Peninsula Apts)	Interest	647	647	647	645	639
2003 Series (Evergreen @ Mesquite)	Principal			41	103	110
2003 Series (Evergreen @ Mesquite)	Interest	<u>704</u>	<u>757</u>	<u>756</u>	<u>751</u>	<u>744</u>
Total Multi-Family Bonds		<u>56,145</u>	<u>57,830</u>	<u>58,195</u>	<u>59,167</u>	<u>60,458</u>
Total		124,742	140,856	128,650	129,734	131,149
Less interest		<u>111,976</u>	<u>111,689</u>	<u>110,145</u>	<u>109,416</u>	<u>107,556</u>
Total Principal		<u>\$ 12,766</u>	<u>\$ 29,167</u>	<u>\$ 18,505</u>	<u>\$ 20,318</u>	<u>\$ 23,593</u>

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.

**SCHEDULE 5**

	<b>2009-13</b>	<b>2014-18</b>	<b>2019-23</b>	<b>2024-28</b>	<b>2029-33</b>	<b>2034-38</b>	<b>2039-43</b>	<b>Total Required</b>
\$	1,145	\$ 1,485	\$ 1,940	\$ 2,550	\$ 3,345	\$ 1,615		\$ 12,700
	3,173	2,817	2,352	1,738	926	89		14,532
	490	465					\$ 10,680	11,950
	3,424	3,257	3,205	3,205	3,205	3,205	2,137	25,185
	371	531	758	1,082	1,547	2,208	3,407	10,150
	3,647	3,478	3,240	2,898	2,408	1,709	609	21,753
	390	525	730	1,005	1,390	335		4,600
	1,368	1,219	1,017	736	348	11		6,173
	526	747	1,058	1,500	2,127	3,014	5,321	14,600
	4,914	4,693	4,380	3,936	3,305	2,412	1,041	29,748
	426	603	853	1,211	1,716	2,432	4,439	11,920
	4,018	3,838	3,585	3,227	2,719	1,999	899	24,426
	446	632	895	1,270	1,799	2,551	4,656	12,500
	4,214	4,026	3,760	3,384	2,851	2,095	943	25,615
	477	737	1,128	1,620	2,295	3,254	7,268	16,970
	5,931	5,668	5,274	4,781	4,100	3,135	1,592	36,569
	740	990	7,025					9,100
	2,173	1,961	1,617					8,071
	940	1,290	1,770	2,375	3,125	2,460		12,200
	3,076	2,788	2,392	1,860	1,139	235		14,686
	1,205	1,550	2,040	2,675	3,500	2,620		14,000
	3,277	2,956	2,504	1,907	1,127	202		15,449
	815	1,040	1,370	1,805	2,375	1,765		9,450
	2,212	1,995	1,692	1,290	762	134		10,433
	935	1,180	1,505	1,900	2,425	3,090	3,515	15,085
10,112	4,614	2,914	2,509	1,990	1,318	455		33,329
	492	736	1,094	1,556	2,192	10,671		16,900
	5,666	5,423	5,068	4,615	3,987	1,836		32,403
	368	568	879	1,322	1,858	2,601	5,445	13,199
	4,541	4,338	4,024	3,580	3,041	2,294	1,228	27,709
	490	734	1,063	1,488	2,082	10,383		16,375
	5,353	5,111	4,786	4,369	3,783	1,941		30,833
	955	1,275	1,725	8,205				12,400
	3,069	2,794	2,400	453				11,941
	668	919	1,263	1,738	2,391	2,101	1,666	11,000
	3,598	3,339	2,984	2,494	1,820	972	429	19,348
	<u>292,648</u>	<u>294,200</u>	<u>286,310</u>	<u>285,109</u>	<u>204,617</u>	<u>143,246</u>	<u>94,475</u>	<u>1,892,400</u>
	630,123	676,965	613,567	678,799	660,758	154,572	94,476	4,164,391
	<u>519,363</u>	<u>469,843</u>	<u>397,294</u>	<u>293,992</u>	<u>140,511</u>	<u>45,359</u>	<u>14,340</u>	<u>2,431,484</u>
	<u>\$ 110,760</u>	<u>\$ 207,122</u>	<u>\$ 216,273</u>	<u>\$ 384,807</u>	<u>\$ 520,247</u>	<u>\$ 109,213</u>	<u>\$ 80,136</u>	<u>\$ 1,732,907</u>

(Concluded)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS**

**AUGUST 31, 2003**

**(Amounts in thousands)**

Description of Issue	Pledged and Other Sources Related Expenditures for Fiscal Year 2003						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	
Single Family:							
Series 95A, 95C, 96A/B, 96D/E, 97A-C, 97D/F, 2002A Jr. Lien, 2002A-D	\$ 7,132	\$20,914	\$ 76,425	\$104,471	\$ 17	\$1,064	\$103,424
Residential Mortgage Revenue:							
Series 98A/B, 99A, 99B-D, 2000A-E, 2001A-D, 2002A, 2003A	748	25,828	120,845	147,421	456	1,288	146,590
Coll. Home Mortgage Revenue:							
Series 92C	82	3,738	16,100	19,921		91	19,829
SF MRB CHMRB Series 93A-E		1,536	8,610	10,146		20	10,126
SF MRB CHMRB Series 94A-C		2,753	19,245	21,998		24	21,975
SF MRRB CHMRB Series 95A		191	590	781		1	780
<b>Total Single Family</b>	<b>7,962</b>	<b>54,960</b>	<b>241,815</b>	<b>304,738</b>	<b>473</b>	<b>2,488</b>	<b>302,723</b>
Multifamily:							
84 MF Priv Placement (Summerbend)	397			397	32	1	429
87 MF Series (South Texas)	89	13		102			102
93 MF Series A/B (Remington Hill/High Pt)	153			153	44	5	192
93 MF Series (NCHMP)	823			823	55		878
96 MF Series A/B (Brighton's/Las Colinas)	1,360			1,360	32	6	1,386
96 MF Series A/B (Braxton's Mark)	845			845	19	3	862
96 MF Series A-D (DFW Pool)	1,436			1,436			1,436
96 MF Series A-D (Harbors/Plumtree)	833			833	30		862
96 MF Series A/B (NHP Foundation)	1,599			1,599	65		1,664
97 MF Series (Meadow Ridge)	720			720	28		749
98 MF Series (Pebble Brook)	583			583	27		609
98 MF Series A-C (Residence Oaks)	478			478	17		495
98 MF Series (Volente)	586			586	26		613
98 MF Series (Greens-Hickory Tr.)	709			709	26		735
98 MF Series (Dallas-Oxford)/rfdg	747			747	26		773
99 MF Series (Woodglen)	784			784	11		794
99 MF Series (Mayfield Apts.)	640			640	11		651
00 MF Series (Timber Pt Apts)	100			100	8		108
00 MF Series (Oaks at Hampton)	730			730	10		740
00 MF Series (Deerwood Apts)	403			403	6		409
00 MF Series (Creek Pt Apts)	89			89	7		96
00 MF Series A/B (Parks Westmoreld)	725			725	10		735
00 MF Series (Honey Creek)	1,562			1,562	20		1,582
00 MF Series A-C (Highland Meadows)	921			921	14		934
00 MF Series A/B (Greenbridge)	1,494			1,494	20		1,514
00 MF Series A-C (Collingham Pk)	915			915	14		928
00 MF Series A/B (Williams Run)	975		40	1,015	13		1,028
00 MF Series A/B (Red Hills Villa)	770			770	10		780
01 MF Series (Bluffview Apt)	813			813	11		824
01 MF Series (Knollwood Villa)	1,045			1,045	14		1,058
01 MF Series (Skyway Villa)	737			737	13	5	745
01 MF Series A/B (Cobb Park Apt)	591			591	8		599
01 MF Series (Greens Road Apt)	449			449	8		457
01 MF Series A/B (Meridian Apt)	838			838	14		852
01 MF Series A/B (Wildwood Branch)	828			828	14		842
01 MF Series A-C (Fallbrook Apt)	899			899	15		914
01 MF Series (Oak Hollow Apt)	643			643	9		651
01 MF Series A/B (Hillside Apt)	968			968	13		981
01 MF Series (Millstone Apt)	699			699	13		712

**SCHEDULE 6**

<u>Debt Service</u>			<u>Interest and Sinking Fund</u>		<u>Reserve Fund</u>	
<u>Principal</u>	<u>Interest</u>	<u>Refunded or Extinguished</u>	<u>Minimum</u>	<u>Actual</u>	<u>Minimum</u>	<u>Actual</u>
\$ 2,180	\$ 26,227	\$ 76,425	\$ n/a	\$ n/a	\$ 1,758	\$ 1,779
4,880	26,927	120,845	n/a	n/a		
	3,562	16,100	n/a	n/a	n/a	n/a
	1,469	8,610	n/a	n/a	n/a	n/a
	2,635	19,245	n/a	n/a	n/a	n/a
	21	590	n/a	n/a	n/a	n/a
<u>7,060</u>	<u>60,841</u>	<u>241,815</u>			<u>1,758</u>	<u>1,779</u>
	396		n/a	n/a	n/a	n/a
58	89		n/a	n/a	843	977
	148		n/a	n/a	n/a	n/a
350	823		n/a	n/a	n/a	n/a
	1,354		n/a	n/a	n/a	n/a
	841		n/a	n/a	n/a	n/a
325	1,436		n/a	n/a	n/a	n/a
210	833		n/a	n/a	n/a	n/a
460	1,599		n/a	n/a	n/a	n/a
180	720		n/a	n/a	n/a	n/a
145	583		n/a	n/a	n/a	n/a
113	478		n/a	n/a	n/a	n/a
135	586		n/a	n/a	n/a	n/a
150	709		n/a	n/a	n/a	n/a
	747		n/a	n/a	n/a	n/a
46	784		n/a	n/a	n/a	n/a
158	640		n/a	n/a	n/a	n/a
	100		n/a	n/a	n/a	n/a
48	730		n/a	n/a	n/a	n/a
40	403		n/a	n/a	n/a	n/a
	89		n/a	n/a	n/a	n/a
47	725		n/a	n/a	n/a	n/a
	1,562		n/a	n/a	n/a	n/a
	921		n/a	n/a	n/a	n/a
38	1,494		n/a	n/a	n/a	n/a
	915		n/a	n/a	n/a	n/a
56	975	40	n/a	n/a	n/a	n/a
28	770		n/a	n/a	n/a	n/a
14	813		n/a	n/a	n/a	n/a
18	1,045		n/a	n/a	n/a	n/a
	737		n/a	n/a	n/a	n/a
2	591		n/a	n/a	n/a	n/a
	449		n/a	n/a	n/a	n/a
	838		n/a	n/a	n/a	n/a
	828		n/a	n/a	n/a	n/a
	899		n/a	n/a	n/a	n/a
	643		n/a	n/a	n/a	n/a
	968		n/a	n/a	n/a	n/a
	699		n/a	n/a	n/a	n/a

(Continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—  
REVENUE BOND PROGRAM**

**ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS**

**AUGUST 31, 2003**

**(Amounts in thousands)**

Description of Issue	Pledged and Other Sources Related Expenditures for Fiscal Year 2003						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and	
02 MF Series (Sugarcreek Apt)	\$ 727	\$ -	\$ -	\$ 727	\$ 12	\$ -	\$ 739
02 MF Series (West Oaks Apt)	741			741	10		751
02 MF Series (Park Meadows Apts)	300			300	5		305
02 MF Series (Clarkridge Villas Apts)	1,008			1,008	14		1,022
02 MF Series (Hickory Trace Apts)	679			679	10		689
02 MF Series (Green Crest Apts)	702			702	10		712
02 MF Series (Ironwood Crossing)	792			792	13		806
02 MF Series (Woodway Village)	346			346	7		353
03 MF Series (Reading Road)	402			402	7		409
03 MF Series (North Vista)	324			324	7		331
03 MF Series (West Virginia)	156			156	3		159
03 MF Series (Primrose Houston)	266			266	6		272
03 MF Series (Timber Oaks)	83	6		89	2		91
03 MF Series (Ash Creek Apts)	13			13			13
03 MF Series (Peninsula Apts)	5			5			5
03 MF Series (Evergreen @ Mesquite)	5	4		9			9
Total Multifamily	<u>27,686</u>	<u>10</u>	<u>40</u>	<u>27,736</u>	<u>488</u>	<u>5</u>	<u>28,216</u>
TOTAL*	<u>\$28,406</u>	<u>\$ 11</u>	<u>\$ 40</u>	<u>\$ 28,457</u>	<u>\$516</u>	<u>\$ 5</u>	<u>\$ 28,967</u>

\*Totals may not add due to rounding.



**SCHEDULE 6**

<b>Debt Service</b>			<b>Interest and Sinking Fund</b>		<b>Reserve Fund</b>	
<b>Principal</b>	<b>Interest</b>	<b>Refunded or Extinguished</b>	<b>Minimum</b>	<b>Actual</b>	<b>Minimum</b>	<b>Actual</b>
\$ -	\$ 727	\$ -	\$ n/a	\$ n/a	\$ n/a	\$ n/a
	741		n/a	n/a	n/a	n/a
	300		n/a	n/a	n/a	n/a
	1,008		n/a	n/a	n/a	n/a
	679		n/a	n/a	n/a	n/a
	702		n/a	n/a	n/a	n/a
	792		n/a	n/a	n/a	n/a
	346		n/a	n/a	n/a	n/a
	402		n/a	n/a	n/a	n/a
	324		n/a	n/a	n/a	n/a
	156		n/a	n/a	n/a	n/a
	266		n/a	n/a	n/a	n/a
	83		n/a	n/a	n/a	n/a
	13		n/a	n/a	n/a	n/a
	5		n/a	n/a	n/a	n/a
	5		n/a	n/a	n/a	n/a
<u>2,619</u>	<u>36,727</u>	<u>40</u>			<u>843</u>	<u>977</u>
<u>\$ 9,679</u>	<u>\$ 97,568</u>	<u>\$ 241,855</u>			<u>\$ 2,601</u>	<u>\$ 2,756</u>

(Concluded)

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**APPENDIX D-2**

UNAUDITED FINANCIAL STATEMENTS OF THE  
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
FOR TEN-MONTH PERIOD ENDED  
JUNE 30, 2004

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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**HOUSING FINANCE DIVISION**  
**COMBINING BALANCE SHEETS**  
**at June 30, 2004**  
**(Unaudited)**

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds	Combined Totals
<b>ASSETS</b>									
Cash	\$ 174,975	\$ 46,308,035		\$ 6,539,052	\$ 1	\$ 43	\$ 22,168	\$ 1,583,261	\$ 54,627,535
Cash Equivalents	91,626,073	19,181,477	649,748	56,860,825	679,319	631,674	36,944,203	10,383,467	216,956,786
Investments, fair value	221,531,088	61,567,394	5,027,445	175,531,872		792,180			464,449,979
Mortgage-backed securities, fair value	205,027,098	384,979,496	28,747,126	3,478,661	12,443,736	22,311,456			656,987,573
Loans Receivable, net	62,129,076	2,444,506		872,680,657				1,933,268	939,187,507
Real Estate Owned, net	511,910	10,007							521,917
Notes Receivable								1,000,000	1,000,000
Accrued Interest Receivable	2,269,761	2,651,615	169,257	6,244,292	66,144	121,038	92,161	16,481	11,630,749
Deferred Issuance Costs, net	5,768,964	4,738,677	269,000	711,450	91,078	108,043			11,687,212
Other Assets	61,326			669,789		(4)		265,895	997,006
<b>TOTAL ASSETS</b>	<b>\$ 589,100,271</b>	<b>\$ 521,881,207</b>	<b>\$ 34,862,576</b>	<b>\$ 1,122,716,598</b>	<b>\$ 13,280,278</b>	<b>\$ 23,964,430</b>	<b>\$ 37,058,532</b>	<b>\$ 15,182,372</b>	<b>\$ 2,358,046,264</b>
<b>LIABILITIES AND FUND BALANCES</b>									
Bonds Payable	\$ 524,350,798	\$ 490,335,399	\$ 32,132,957	\$ 873,346,722	\$ 12,070,000	\$ 21,555,000			\$ 1,953,790,876
Commercial Paper Notes Payable							36,552,000		36,552,000
Accrued Interest Payable	7,724,204	13,230,922	41,549	7,400,898	64,898	117,734	49,634		28,629,839
Accounts Payable and Other									
Accrued Expenses	10,697	927	0	691				792,395	804,710
Other Liabilities	4,300,036	7,003,943	785,741	241,804,409	11,978	1,492	392,203	101,006	254,400,808
<b>TOTAL LIABILITIES</b>	<b>536,385,735</b>	<b>510,571,191</b>	<b>32,960,247</b>	<b>1,122,552,720</b>	<b>12,146,876</b>	<b>21,674,226</b>	<b>36,993,837</b>	<b>893,401</b>	<b>2,274,178,233</b>
Restricted Fund Balance	52,714,536	11,310,016	1,902,329	163,878	1,133,402	2,290,204	64,695	14,288,971	83,868,031
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 589,100,271</b>	<b>\$ 521,881,207</b>	<b>\$ 34,862,576</b>	<b>\$ 1,122,716,598</b>	<b>\$ 13,280,278</b>	<b>\$ 23,964,430</b>	<b>\$ 37,058,532</b>	<b>\$ 15,182,372</b>	<b>\$ 2,358,046,264</b>

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**HOUSING FINANCE DIVISION**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE**  
**For the Tenth Period Ending June 30, 2004**  
**(Unaudited)**

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds	Combined Totals
Interest Revenue:									
Loans	\$ 3,663,970	\$ 224,900	\$	\$ 37,041,676	\$	\$	\$	\$ 33,328	\$ 40,963,874
Investments	13,898,955	21,707,255	2,169,672	8,540	780,291	1,557,237	1,003,550	123,213	41,248,713
Rebate Adjustment	108,918	(449,545)			11,452	(19,873)			(349,048)
Real Estate Owned	2,747								2,747
Total Interest Revenue	<u>17,674,590</u>	<u>21,482,610</u>	<u>2,169,672</u>	<u>37,050,216</u>	<u>791,743</u>	<u>1,537,364</u>	<u>1,003,550</u>	<u>156,541</u>	<u>81,866,286</u>
Interest Expense:									
Interest on Bonds	18,957,628	22,730,655	2,082,187	37,041,673	766,960	1,379,314			82,958,417
Interest on Commercial Paper							937,640		937,640
Net Interest Revenue	<u>(1,283,038)</u>	<u>(1,248,045)</u>	<u>87,485</u>	<u>8,543</u>	<u>24,783</u>	<u>158,050</u>	<u>65,910</u>	<u>156,541</u>	<u>(2,029,771)</u>
Other Revenue:									
Commitment Fees	160,873	93,850	68,595	14,098					337,416
Other	(23,705)	187,761		340,480				1,487,958	1,992,494
Total Other Revenue	<u>137,168</u>	<u>281,611</u>	<u>68,595</u>	<u>354,578</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,487,958</u>	<u>2,329,910</u>
Other Expenses:									
Amortization and Write-Off of Deferred Issuance Costs	197,574	235,348	5,810	12,469	3,972	4,419			459,592
Mortgage Loan Servicing Fees	178,434	8,608							187,042
Trustee Fees	146,642	83,229	9,544	291	2,520	39,220	9,421	2,385	293,252
Mortgage Pool & Self Insurance	177,535								177,535
Provision for Estimated Losses on Loans	(15,926)	(1,800)						585	(17,141)
Other	66,505	448,861	32,231		5,000	3,000	88,592	292,079	936,268
General and Administrative								4,604,264	4,604,264
Total Other Expenses	<u>750,764</u>	<u>774,246</u>	<u>47,585</u>	<u>12,760</u>	<u>11,492</u>	<u>46,639</u>	<u>98,013</u>	<u>4,899,313</u>	<u>6,640,812</u>
Operating Income (Loss)	<u>(1,896,634)</u>	<u>(1,740,680)</u>	<u>108,495</u>	<u>350,361</u>	<u>13,291</u>	<u>111,411</u>	<u>(32,103)</u>	<u>(3,254,814)</u>	<u>(6,340,673)</u>
Gain (Loss) on Early Extinguishment of Debt	(1,496,405)	(437,811)	160,957	(366,551)	(44,207)	(45,398)			(2,229,415)
Net Increase (Decrease) in Fair Value of Investments	(1,498,852)	(3,723,952)	(555,377)		(207,362)	(318,831)			(6,304,374)
Operating Transfers, net	<u>(931,182)</u>	<u>(250,387)</u>	<u>(2,652)</u>	<u>(1,452,076)</u>	<u>(18,436)</u>	<u>(279,699)</u>	<u>68,956</u>	<u>4,539,401</u>	<u>1,673,925</u>
Net Income (Loss)	<u>\$ (5,823,073)</u>	<u>\$ (6,152,830)</u>	<u>\$ (288,577)</u>	<u>\$ (1,468,266)</u>	<u>\$ (256,714)</u>	<u>\$ (532,517)</u>	<u>\$ 36,853</u>	<u>\$ 1,284,587</u>	<u>\$ (13,200,537)</u>
Restricted fund balance, beginning of period	58,537,609	17,462,846	2,190,906	1,632,144	1,390,116	2,822,721	27,842	13,004,384	97,068,568
Equity Transfers									
<b>RESTRICTED FUND BALANCE, END OF PERIOD</b>	<u>\$ 52,714,536</u>	<u>\$ 11,310,016</u>	<u>\$ 1,902,329</u>	<u>\$ 163,878</u>	<u>\$ 1,133,402</u>	<u>\$ 2,290,204</u>	<u>\$ 64,695</u>	<u>\$ 14,288,971</u>	<u>\$ 83,868,031</u>

## APPENDIX E

### FORM OF PROPOSED OPINION OF BOND COUNSEL

[LETTERHEAD OF BOND COUNSEL]

\_\_\_\_\_, 2004

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Single Family Mortgage Revenue Bonds, in three series to be known as (i) its Single Family Mortgage Revenue Bonds, 2004 Series C (the "Series C Bonds"), (ii) its Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D (the "Series D Bonds"), and (iii) its Single Family Mortgage Revenue Refunding Bonds, 2004 Series E (the "Series E Bonds" and together with the Series C Bonds, the "Series 2004 C/E Bonds") (collectively, the "Series 2004 C/D/E Bonds"). The initially issued Series 2004 C/D/E Bonds shall bear interest from the date of delivery thereof. Interest on the Series 2004 C/D/E Bonds is payable March 1, 2005, and semiannually thereafter on each September 1 and March 1 until maturity or prior redemption. The Series 2004 C/E Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Series D Bonds are issuable only as fully registered bonds without coupons in denominations of \$100,000 and any whole multiple of \$5,000 in excess thereof. The Series 2004 C/D/E Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to mandatory, optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE SERIES 2004 C/D/E BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on September 9, 2004 (the "Bond Resolution"), a Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, between the Department's predecessor, the Texas Housing Agency, or the Department, as the case may be, and The Fort Worth National Bank, or its successor, J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"), as amended and supplemented (collectively, the "Single Family Indenture"), a Thirty-Eighth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004 (the "Thirty-Eighth Series Supplement") relating to the Series C Bonds, a Thirty-Ninth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004 (the "Thirty-Ninth Series Supplement") relating to the Series D Bonds and a Fortieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004 (the "Fortieth Series Supplement") relating to the Series D Bonds (the Thirty-Eighth Series Supplement, the Thirty-Ninth Series Supplement and the Fortieth Series Supplement shall be referred to collectively as the "Supplemental Indentures"). The Single Family Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series C Bonds and the Series D Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans, funding capitalized interest and paying a portion of the costs of issuance of the Series 2004 C/D/E Bonds. The Series E Bonds are being issued for the purpose of refunding the Department's outstanding Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1993A, Series 1993B, Series 1993C, Series 1993D and Series 1993E. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE SINGLE FAMILY INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2004 C/D/E Bonds upon the terms and conditions set forth in the Single Family Indenture. The Department reserves the right in the Indenture to issue other bonds of the Department under the Indenture for other programs similar to the program initially funded with the proceeds of the Series 2004 C/D/E Bonds or funds made available through the issuance of the Series 2004 C/D/E Bonds and to refund bonds issued under the Indenture, and further reserves the right to issue bonds payable from the pledges and assignments in trust

pursuant to the Indenture that are junior or subordinate to the Series 2004 C/D/E 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 2004 C/D/E Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2004 C/D/E Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2004 C/D/E 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 2004 C/D/E Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. TR-1 of each series of the Series 2004 C/D/E Bonds.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Series 2004 C/D/E Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal and redemption price of and interest on the Series 2004 C/D/E Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Department's Single Family Mortgage Revenue Bonds, 1995 Series A-1; Single Family Mortgage Revenue Refunding Bonds, 1995 Series B-1; Taxable Single Family Mortgage Revenue Bonds, 1995 Series C-1; Single Family Mortgage Revenue Bonds, 1996 Series A; Single Family Mortgage Revenue Refunding Bonds, 1996 Series B; Single Family Mortgage Revenue Bonds, 1996 Series 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; Taxable Single Family Mortgage Revenue Bonds, 1997 Series C; Single Family Mortgage Revenue Bonds, 1997 Series D; Single Family Mortgage Revenue Refunding Bonds, 1997 Series E, Taxable Single Family Mortgage Revenue Bonds, 1997 Series F, Single Family Mortgage Revenue Bonds, 2002 Series A; Single Family Mortgage Revenue Refunding Bonds, 2002 Series B; Single Family Mortgage Revenue Refunding Bonds, 2002 Series C; Single Family Mortgage Revenue Refunding Bonds, 2002 Series D; Single Family Mortgage Revenue Refunding Bonds, 2004 Series A; and Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B, all issued under the Single Family Indenture, and the Single Family Mortgage Revenue Bonds, 2004 Series F being delivered by the Department concurrently with the delivery of the Series 2004 C/D/E



Bonds. The Department has also issued its Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A and Taxable Junior Lien Single Family Variable Rate Mortgage Revenue Bonds, Series 2004A, which are secured on a basis subordinate to the Bonds.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2004 C/D/E Bonds. The authorized officers of the Department have duly executed the Series 2004 C/D/E Bonds and the Trustee has duly authenticated the Series 2004 C/D/E Bonds, to the extent required by the Indenture, and delivered the Series 2004 C/D/E Bonds to the initial purchasers thereof. The Series 2004 C/D/E 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 2004 C/D/E Bonds that we have examined are regular and proper.

4. The Series 2004 C/D/E 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 2004 C/D/E 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 2004 C/D/E 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 2004 C/D/E 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 2004 C/E Bonds is excludable from gross income for federal income tax purposes under existing law.

7. Interest on the Series D Bonds prior to the first date that is an interest rate conversion date for which an opinion of nationally recognized bond counsel is required under the Indenture is excludable from gross income for federal income tax purposes under existing law.

8. Interest on the Series 2004 C/D/E Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of calculating the federal alternative minimum tax on individuals and corporations under existing law.

IN PROVIDING THE OPINIONS set forth in paragraphs 6, 7 and 8 above with respect to the Series 2004 C/D/E Bonds, we have relied on representations of the Department, the Underwriters, the Servicer and the Mortgage Lenders, with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer and the Mortgage Lenders, respectively, which we have not independently verified, and have assumed continuing compliance with the procedures, safeguards and covenants in the Indenture and other documents relating to the requirements of the Internal Revenue Code of 1986, as amended. We have further relied on the report (the "Report") of Causey Demgen & Moore, Inc., certified public accountants, regarding the mathematical accuracy of certain computations. In the event that any of such representations or the Report is determined to be inaccurate or incomplete or the Department, a Mortgage Lender or the Servicer fails to comply with the foregoing procedures, safeguards and covenants in the Indenture, interest on the Series 2004 C/D/E Bonds could become includable in gross income for federal income tax purposes under existing law from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

EXCEPT AS STATED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Series 2004 C/D/E Bonds. Further, pursuant to the Thirty-Ninth Series Supplement, certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not

adversely affect the excludability of interest on the Series D Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, we express no opinion regarding the excludability of interest on the Series D Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, we express no opinion on our ability to render the opinion required in connection with such changes.

HOLDERS OF THE Series 2004 C/D/E Bonds should also be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits" tax on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2004 C/D/E Bonds.

THE OPINIONS SET FORTH ABOVE are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2004 C/D/E Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer. We observe that the Department has covenanted in the Supplemental Indentures not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2004 C/D/E Bonds as includable in gross income for federal income tax purposes.

**APPENDIX F-1**

**THE DEPARTMENT'S MORTGAGE LOAN PORTFOLIO**

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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 June 30, 2004, 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 <sup>(1)</sup>	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1980 A	\$ 150,000,000	\$ -	11.20 %	\$ 135,128,160	\$ 3,433,568
1982 A	100,000,000	-	13.93	14,212,374	42,686
1983 A	238,800,000	-	10.79	216,279,114	6,399,769
1984 A/B	304,200,000	-	12.10/9.75	171,587,864	3,241,978
1985 A	200,000,000	-	9.75	118,045,235	5,931,879
1985 B	123,996,157	-	9.70/9.55	29,176,707	1,523,514
1985 C	30,000,000	-	8.20	27,726,028	2,241,737
1986 A	83,425,000	-	8.70	73,526,184	5,183,540
1986 B	90,280,000	-	7.99/7.90	82,298,613	7,576,112
1987 A	14,840,000	-	---	-	-
1987 B	77,700,000	-	7.99/8.05/8.70	69,445,860	3,660,381
1991 A	81,605,000	-	---	-	-
1995 A-1, B-1, C-1	167,125,000	53,880,000	6.65	98,309,227	36,490,441
1996 A, B, C	59,140,000	12,305,000	5.95*	19,273,572	8,953,864
1996 D, E	169,490,000	63,125,000	6.75	92,277,298	34,954,028
1997 A, B, C	79,500,000	52,860,000	5.95*	78,969,869	48,179,373
1997 D, E, F	85,090,000	37,560,000	5.95*	66,463,700	43,632,853
2002 A, B, C, D	118,000,000	112,760,000	4.99*	21,251,339	17,457,172
2004 A, B	176,610,000	176,610,000	4.99/5.50	990,991	990,991
<b>TOTAL</b>	<b>\$ 2,349,801,157</b>	<b>\$509,100,000</b>		<b>\$ 1,314,962,135</b>	<b>\$ 229,893,886</b>

\* = "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. The Single Family Mortgage Revenue Bonds 2002 Series A provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 2002 Series B refunded and redeemed an equal amount of Residential Mortgage Revenue Bonds 2001 Series E and the 2002 Series C refunded certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Refunding Bonds 2002 Series D refunded all outstanding 1991 Series A Bonds. The Single Family Mortgage Revenue Refunding Bonds 2004 Series A and the Single Family Variable Rate Mortgage Revenue Refunding Bonds 2004 Series B were issued for the primary purpose of refunding the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A and Single Family Mortgage Revenue Tax-Exempt Commercial Paper Notes, Series C thereby providing funds for the purchase of mortgage-backed, pass-through certificates.

### **1994 Junior Lien Trust Indenture Single Family Mortgage Revenue Refunding Bonds**

Series <sup>(2)</sup>	Original	Bonds	Mortgage	Mortgage Certificates	
	Issue Amount	Outstanding	Rate	Originated	Outstanding
1994 A	\$ 35,000,932	\$ -	5.95/6.65/6.75%	\$ 11,354,583	\$ 6,685,749
1994 B	55,995,000	-	5.95	2,784,029	2,200,598
2002 A	10,000,000	9,945,000		-	-
2004 A	4,140,000	4,140,000		-	-
<b>TOTAL</b>	<b>\$ 105,135,932</b>	<b>\$ 14,085,000</b>		<b>\$ 14,138,612</b>	<b>\$ 8,886,347</b>

(2) The Junior Lien Single Family Revenue Refunding Bonds 1994 Series A&B refunded all outstanding 1983 Series A Bonds. The Taxable Junior Lien Single Family Mortgage Revenue Bonds 2002 Series A were 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, to pay cost of issuance of the 2002 Series A Bonds and other permitted programs and purposes as determined by the Department from time to time. The Taxable Junior Lien Single Family Variable Rate Mortgage Revenue Bonds 2004 Series A were issued for the primary purpose of providing down payment assistance for Program 61. Loan balances are not included in the table above because 2002 Series A and 2004 Series A debt service is not dependent on loan repayments.

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

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Prior Mortgage Loans
Conventional	684	\$ 20,164,567	52.74%
FHA	554	17,576,110	42.71%
VA	59	1,494,488	4.55%
<b>Total</b>	<b>1,297</b>	<b>\$ 39,235,165</b>	<b>100.00%</b>

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	58	\$ 1,612,999	4.47%
60 days	11	350,554	0.85%
90 days or more	21	693,460	1.62%
<b>Total</b>	<b>90</b>	<b>\$ 2,657,013</b>	<b>6.94%</b>

**FHA**

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	41	\$ 1,390,292	3.16%
60 days	16	643,795	1.23%
90 days or more	20	763,603	1.54%
<u>Total</u>	<u>77</u>	<u>\$ 2,797,690</u>	<u>5.94%</u>

**VA**

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	5	\$ 124,369	0.39%
60 days	1	33,918	0.08%
90 days or more	3	103,182	0.23%
<u>Total</u>	<u>9</u>	<u>\$ 261,469</u>	<u>0.69%</u>

**TOTAL**

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	104	\$ 3,127,661	8.02%
60 days	28	1,028,268	2.16%
90 days or more	44	1,560,245	3.39%
<u>Total</u>	<u>176</u>	<u>\$ 5,716,174</u>	<u>13.57%</u>

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

<u>Series</u>	<u>Mortgage Rate</u>	<u>Total Loans Acquired</u>	<u>Total Loans Prepaid<sup>(3)</sup></u>	<u>Percent Prepaid</u>
1980 Series A	11.20	2,947	2,774	94.13%
1982 Series A	13.93	340	336	98.82%
1983 Series A	10.79	3,737	3,528	94.41%
1984 Series A/B	12.10/9.75	3,040	2,927	96.28%
1985 Series A	9.75	2,011	1,834	91.20%
1985 Series B	9.70/9.55	558	508	91.04%
1985 Series C	8.20	462	394	85.28%
1986 Series A	8.70	1,121	981	87.51%
1986 Series B	7.99/7.90	1,291	1,076	83.35%
1987 Series B	7.99/8.05/8.70	1,168	1,020	87.33%
<u>Totals</u>		<u>16,675</u>	<u>15,378</u>	<u>92.22%</u>

(3) 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 June 30, 2004, the Department has foreclosed on 3,054 Portfolio Mortgage Loans having an unpaid principal balance at default of \$157,078,537. As of June 30, 2004, the Department continued to hold title to property securing three of such Portfolio Mortgage Loans aggregating \$46,372 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
CitiMortgage, Inc.	41.68%
Texas Star Mortgage	49.16%
Countrywide	9.16%
Total	100.00%

**Servicers—Mortgage Loans--Single Family**

Servicers	Percent of Total Loans
Mitchell Mortgage Company	51.46%
Saxon Mortgage Services, Inc.	14.88%
CitiMortgage, Inc.	11.63%
Guaranty Residential Lending, Inc.	5.77%
First Horizon Home Loan Corp.	5.35%
Other	10.91%
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	\$ 5,444,709
1982A	MGIC	1,005,444
1983A	MGIC	8,657,485
1984A/B	GEMIC	5,695,470
1985A	MGIC	4,180,703
1985B/C	MGIC	5,012,109
1986A(1996B) <sup>(4)</sup>	Self Insurance	440,976
1986B(1996E) <sup>(4)</sup>	Self Insurance	562,094
1987B(1997E) <sup>(4)</sup>	Self Insurance	496,960
Total		\$ 31,495,950

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



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

Bond Series	Debt Service Reserve <sup>(5)</sup>	
	Par Value	Average
	Fund Balances	Investment
	Actual	Rate <sup>(6)</sup>
1980	149,726	13.875%
1996 D-E	941,870	13.250%
2002 A Jr. Lien	300,000	13.875%
2004 A Jr. Lien	124,416	1.450%
Total	\$ 1,516,012	

(5) 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.

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

### **Part III: 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 does not service the Mortgage Loans backing Mortgage Certificates; however, the Department monitors the origination and payment of such Mortgage Loans. The Department currently manages the Mortgage Loans using 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.

#### **DISCLAIMER**

“All information contained herein is obtained from sources believed to be accurate and reliable. Refer to the Official Statement and operative documents of each series for complete information on that issue. Because of the possibility of human and mechanical error as well as other factors, such information is provided “as is” without warranty of any kind and, in particular, no representation or warranty, expressed or implied, is made nor to be inferred as to the accuracy, timeliness or completeness, of any such information. Under no circumstances shall the Texas Department of Housing and Community Affairs have any liability to any person or entity for (a) any loss or damage in whole or part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstances involved in procuring, collecting, compiling, interpreting, analyzing, editing, transcribing, transmitting, communicating or delivering any such information, or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if the Texas Department of Housing and Community Affairs is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, any such information.”

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**APPENDIX F-2**

**OTHER INDEBTEDNESS OF THE DEPARTMENT**

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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, through June 30, 2004, there have been issued by the Agency or the Department, twenty-seven series of Residential Mortgage Revenue Bonds, thirty-three series of Single Family Mortgage Revenue Bonds, four 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 June 30, 2004, the outstanding principal amount of bonded indebtedness of the Department for single family housing purposes was \$1,076,550,000.

General - Multifamily The Department and the Agency have issued one hundred sixty multifamily housing revenue bonds which have been issued pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of June 30, 2004, one hundred thirteen series were outstanding with an aggregate outstanding principal amount of \$873,952,571.

Single Family Mortgage Revenue Bonds ("SFMRBs") The Department has issued thirty-three 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-seven indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by the SFMRB Indenture. As of June 30, 2004, seventeen series were outstanding with an aggregate outstanding principal amount totaling \$509,100,000.

Junior Lien Bonds The Department has issued four series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, dated as of May 1, 1994, and four indentures supplemental thereto. 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 June 30, 2004, two series were outstanding with an aggregate outstanding principal of \$14,085,000.

Residential Mortgage Revenue Bonds ("RMRBs") As of June 30, 2004, the Department has issued twenty-seven series of Residential Mortgage Revenue and Refunding Bonds pursuant to the Residential Mortgage Revenue Bond Trust Indenture and twenty-seven separate series supplements, and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of June 30, 2004, sixteen series were outstanding with an aggregate outstanding principal amount of \$488,340,000.

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 June 30, 2004, two series of CHMRBs were outstanding with an aggregate outstanding principal amount of \$31,400,000.

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 June 30, 2004, five series of the SFCHMRB – 1993s were outstanding with an aggregate outstanding principal amount of \$12,070,000.

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 June 30, 2004, three series of the SFCHMRB – 1994s were outstanding with an aggregate outstanding principal amount of \$21,555,000.

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. On December 1, 2003, all series of SFCHMRB – 1995s were redeemed in whole.

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

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

## APPENDIX G

### INVESTMENT OF FUNDS RELATING TO PRIOR BONDS

The following table summarizes certain information as of June 30, 2004, regarding yields (calculated on the basis of stated maturity) or existing investments (valued at par) within the Debt Service Reserve Fund and the Float Fund and Acquisition Fund (as defined in Footnote 1 below) in connection with the outstanding Prior Bonds:

Fund or Account	Approximate Amount Invested (Par Value)	Average Investment Rate	Investment Maturity Date	Investment Security/ Investment Agreement Provider
<b>Debt Service Reserve Fund</b>				
Series 1980	\$ 149,452	13.875%	5/15/2011	Treasury Bond
Series 1996D/E/F	941,870	13.250%	5/15/2014	Treasury Bond
Series 2002A	300,000	13.875%	5/15/2011	Treasury Bond
Series 2004A Jr. Lien	124,416	1.450%	7/01/2004	Goldman Sachs Repurchase Agreement
<b>Float Fund<sup>(1)</sup></b>				
Series 1982A	22,843	5.606%	9/30/2029	FGIC GIC
Series 1983A	1,583,111	6.030%	9/30/2029	FGIC GIC
Series 1984A/B	370,491	6.086%	9/30/2029	FGIC GIC
Series 1985A	785,051	5.910%	9/30/2029	FGIC GIC
Series 1985B/C	112,167	6.072%	9/30/2029	FGIC GIC
Series 1987B	789,264	5.746%	9/30/2029	FGIC GIC
Series 1991A	234,034	6.080%	9/30/2029	FGIC GIC
Series 1994A/B	14,062	2.623%	9/30/2029	FGIC GIC
Series 1995A/B	5,391,856	5.974%	9/30/2029	FGIC GIC
Series 1995C	7,168	6.078%	9/30/2029	FGIC GIC
Series 1996A/B/C	2,762,282	6.123%	9/01/2028	Westdeutsche Bank Investment Agreement
Series 1996D/E	9,140,259	6.003%	9/30/2029	FGIC GIC
Series 1997A/B/C	4,674,359	6.033%	8/31/2029	AIGMFC GIC
Series 1997D/E/F	5,021,656	5.150%	8/31/2029	CDCFC GIC
Series 2002A	25,391	1.450%	7/01/2004	Goldman Sachs Repurchase Agreement
Series 2002A/B/C/D	2,976,517	4.858%	3/01/2034	Bayerische GIC
Series 2004A/B	0	3.960%	3/01/2036	Transamerica Life
Series 2004A Jr. Lien	0	3.960%	3/01/2036	Transamerica Life
<b>Acquisition Fund</b>				
1994A/B	887,346	1.450%	7/01/2004	Goldman Sachs Repurchase Agreement
2002A	3,105,763	1.450%	7/01/2004	Goldman Sachs Repurchase Agreement
2002A/B/C/D	78,225,630	1.450%	7/01/2004	Goldman Sachs Repurchase Agreement
2004A Jr. Lien	4,004,199	1.280%	11/01/2005	Transamerica Life
2004A/B	173,866,333	1.280%	11/01/2005	Transamerica Life

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

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## **APPENDIX H**

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

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**APPENDIX H**

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

<b>Area</b>	<b>50% of AMFI</b>	<b>60% of AMFI (^)</b>	<b>80% of AMFI (^)</b>	<b>100% of AMFI*</b>	<b>115% of AMFI**</b>	<b>120% of AMFI***</b>	<b>140% of AMFI****</b>
Austin-San Marcos Metro <sup>(1)</sup>	\$35,550	\$42,660	\$56,880	\$71,100	\$81,765	\$85,320	\$99,540
Brazoria Metro <sup>(2)</sup>	\$31,450	\$37,740	\$50,320	\$62,900	\$72,335	\$75,480	\$88,060
Bryan-College Station Metro <sup>(3)</sup>	\$27,000	\$32,400	\$43,200	\$54,000	\$62,100	\$64,800	\$75,600
Dallas Metro <sup>(4)</sup>	\$33,250	\$39,900	\$53,200	\$66,500	\$76,475	\$79,800	\$93,100
Fort Worth – Arlington Metro <sup>(5)</sup>	\$31,350	\$37,620	\$50,160	\$62,700	\$72,105	\$75,240	\$87,780
Galveston - Texas City Metro <sup>(6)</sup>	\$29,900	\$35,880	\$47,840	\$59,800	\$68,770	\$71,760	\$83,720
Houston Metro <sup>(7)</sup>	\$30,500	\$36,600	\$48,800	\$61,000	\$70,150	\$73,200	\$85,400
Austin County	\$28,100	\$33,720	\$44,960	\$56,200	\$64,630	\$67,440	\$78,680
Bandera County	\$26,750	\$32,100	\$42,800	\$53,500	\$61,525	\$64,200	\$74,900
Blanco County	\$27,550	\$33,060	\$44,080	\$55,100	\$63,365	\$66,120	\$77,140
Carson County	\$28,250	\$33,900	\$45,200	\$56,500	\$64,975	\$67,800	\$79,100
Cooke County	\$26,950	\$32,340	\$43,120	\$53,900	\$61,985	\$64,680	\$75,460
Gillespie County	\$27,000	\$32,400	\$43,200	\$54,000	\$62,100	\$64,800	\$75,600
Hartley County	\$31,050	\$37,260	\$49,680	\$62,100	\$71,415	\$74,520	\$86,940
Irion County	\$27,400	\$32,880	\$43,840	\$54,800	\$63,020	\$65,760	\$76,720
Kendall County	\$33,900	\$40,680	\$54,240	\$67,800	\$77,970	\$81,360	\$94,920
Loving County	\$32,500	\$39,000	\$52,000	\$65,000	\$74,750	\$78,000	\$91,000
Ochiltree County	\$28,050	\$33,660	\$44,880	\$56,100	\$64,515	\$67,320	\$78,540
Roberts County	\$26,550	\$31,860	\$42,480	\$53,100	\$61,065	\$63,720	\$74,340
Wise County	\$27,850	\$33,420	\$44,560	\$55,700	\$64,055	\$66,840	\$77,980
Balance of State	\$26,500	\$31,800	\$42,400	\$53,000	\$60,950	\$63,600	\$74,200

- (1) Bastrop, Caldwell, Hays, Travis & Williamson Counties      (^) For use in monitoring compliance with Chapter 2306, Texas Government Code, with respect to loans made to families of low income (80% of AMFI) and families of very-low income (60% of AMFI).
- (2) Brazoria County
- (3) Brazos County
- (4) Collin, Dallas, Denton, Ellis, Hunt, Kaufman & Rockwall Counties      \*
- (5) Hood, Johnson, Parker, Tarrant Counties      \*\*
- (6) Galveston      \*\*\*
- (7) Chambers, Fort Bend, Harris, Liberty, Montgomery & Waller Counties      \*\*\*\*

Effective: April 1, 2004

AVERAGE AREA PURCHASE PRICES

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

Austin-Round Rock MSA (1)	\$210,375
Dallas-Fort Worth-Arlington MSA (2)	202,387
Henderson County	202,387
Hutchinson County	202,387
San Angelo MSA (3)	202,387
all other areas (4)	189,682

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

Austin-Round Rock MSA (1)	\$257,125
Dallas-Fort Worth-Arlington MSA (2)	247,362
Henderson County	247,362
Hutchinson County	247,362
San Angelo MSA (3)	247,362
all other areas (4)	231,833

- (1) Bastrop, Caldwell, Hays, Travis and Williamson Counties
- (2) Collin, Dallas, Delta, Denton, Ellis, Hunt, Johnson, Kaufman, Parker, Rockwall, Tarrant and Wise Counties
- (3) Irion and Tom Green Counties
- (4) All counties not listed above

**APPENDIX I**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)