OFFICIAL STATEMENT

RATINGS: Moody's: "Aa1/VMIG 1"
S&P: "AAA/A-1+"
See ("RATINGS" herein)

In the opinion of Vinson & Elkins L.L.P.,("Bond Counsel") assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2007A Bonds is excludable from gross income for federal income tax under existing law, and (ii) interest on the Series 2007A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations.

NEW ISSUE - BOOK-ENTRY ONLY

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
$143,005,000
Single Family Variable Rate Mortgage
Revenue Bonds
2007 Series A (AMT)

Interest Accrues: Date of Delivery   Price 100%   CUSIP: 88275F MF3   Due: September 1, 2038

The Texas Department of Housing and Community Affairs Single Family Variable Rate Mortgage Revenue Bonds, 2007 Series A (the "Series 2007A 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 2007A Bonds. The Series 2007A 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 2007A Bonds, the principal or redemption price of and interest on the Series 2007A Bonds will be payable by The Bank of New York Trust Company, N.A., 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 2007A Bonds. The purchasers of the Series 2007A Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 2007A BONDS - DTC and Book-Entry."

The Series 2007A 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 2007A Bonds bear interest at a Weekly Interest Rate, interest on the Series 2007A Bonds will be payable to DTC commencing on September 1, 2007, and semi-annually thereafter on each March 1 and September 1 until maturity or prior redemption, all as more fully described herein. The interest rate on the Series 2007A Bonds may be changed from time to time by the Department to a Daily Interest Rate, Weekly Interest Rate, Short-Term Interest Rate, Alternate Rate or to a Long-Term Interest Rate, to be determined by the Remarketing Agent (initially, Bear, Stearns & Co. Inc.) in the manner described herein. Interest will be payable on the Series 2007A Bonds at the times and in the manner described herein.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A WEEKLY INTEREST RATE OR A DAILY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

The registered owners of the Series 2007A Bonds will have the right, and in certain circumstances may be required, to tender their Series 2007A 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 2007A Bonds following any mandatory purchase. The purchase price of any Series 2007A 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 among 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 2007A BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY TENDER. See "THE SERIES 2007A BONDS - Tender Provisions". THE SERIES 2007A 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 2007A BONDS -- Redemption Provisions."

The Series 2007A Bonds are being issued, in part, 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 Series 2007A Bonds are also being issued, in part, for the purpose of refunding and redeeming all of the Department's outstanding Single Family Mortgage Revenue Bonds, 1997 Series A and Single Family Mortgage Revenue Bonds, 1997 Series D. The Series 2007A Bonds, the Prior Bonds (as defined herein), and, unless subordinated, all bonds subsequently issued under the Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Trust Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE."

THE SERIES 2007A 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 2007A 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 2007A BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

The Series 2007A Bonds are offered when, as, and if issued by the Department. Delivery of the Series 2007A 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, Kevin Hamby, 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, Locke Liddell & Sapp LLP. It is expected that the Series 2007A Bonds will be available for delivery to DTC in book-entry only form on or about June 5, 2007.

BEAR, STEARNS & CO. INC.
ESTRADA HINOJOSA & COMPANY, INC.
M.R. BEAL & COMPANY

GEORGE K. BAUM & COMPANY
MORGAN KEEGAN & COMPANY, INC.
PIPER JAFFRAY & CO.

May 24, 2007

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 2007A 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, the Remarketing Agent or DEPFA BANK plc, acting by and through its New York Branch for use in this 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 2007A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007A 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 2007A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED HEREIN, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

Relating to

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

$143,005,000
Single Family Variable Rate Mortgage
Revenue Bonds
2007 Series A (AMT)

INTRODUCTION

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its $143,005,000 Single Family Variable Rate Mortgage Revenue Bonds, 2007 Series A (the "Series 2007A Bonds"). Capitalized terms used but not otherwise defined herein shall have the respective meanings for such terms as set forth in "APPENDIX A - GLOSSARY".

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

The Series 2007A Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on March 12, 2007, 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, The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), and a Fifty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Fifty-Fourth Supplemental Indenture") between the Department and the Trustee, dated as of June 1, 2007 with respect to the Series 2007A Bonds. The Fifty-Forth Supplemental Indenture is referred to as the "2007 Supplemental Indenture". The Trust Indenture authorizes the Department to issue bonds, (i) 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, (ii) to refund Outstanding Bonds issued under the Trust Indenture, and (iii) to pay costs associated therewith. The Department has previously issued forty-nine prior series of single family mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which $941,390,000 in aggregate principal amount was Outstanding as of February 28, 2007. See "SECURITY FOR THE BONDS -- The Single Family Mortgage Revenue Bonds." The Series 2007A Bonds, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the

"Bonds" or the "Single Family Mortgage Revenue Bonds") 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 $11,920,000 in aggregate principal amount was outstanding as of February 28, 2007. 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 2007A Bonds are being issued for the primary purposes of providing funds for the purchase of mortgage-backed, pass-through certificates (the "2007 A 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 "2007 A Mortgage Loans") and refunding and redeeming all of the Department's outstanding Single Family Mortgage Revenue Bonds, 1997 Series A and Single Family Mortgage Revenue Bonds, 1997 Series D. The 2007 A 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." An amount equal to approximately $15,000,000 of the lendable funds made available through the issuance of the Series 2007A Bonds will set aside for at least one year for the purpose of making GO Zone Mortgage Loans. Twenty percent (20%) of the lendable funds attributable to the Series 2007A Bonds will be set aside for at least one year, unless otherwise instructed by the Department in writing, for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. Thirty percent (30%) of the lendable funds made available through the issuance of the Series 2007A Bonds will be reserved for a period of one year (or such longer period as determined by the Department) to make Mortgage Loans to individuals and families of very low income (not exceeding sixty percent (60%) of applicable median family income). 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", "–Very Low Income 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 Accounts, the Swap Agreement Termination Payment Subaccount, the 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 Agreements. 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 AGREEMENTS."

The Series 2007A Bonds are on a parity in all respects with all outstanding Prior Bonds, and, unless subordinated, any bonds subsequently issued under the Trust Indenture. 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 February 28, 2007, of the $20,873,576 Mortgage Loans (excluding Mortgage Certificates representing Mortgage Loans) held under the Trust Indenture, according to principal amount, $11,227,197 were Conventional Mortgage Loans, $8,922,462 were FHA Mortgage Loans, and $723,917 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 2007A Bonds or any other Outstanding Bonds. As of February 28, 2007, the Debt Service Reserve Account Requirement for the Single Family Mortgage Revenue Bonds was $577,487 and $941,870 was on deposit in the Debt Service Reserve Account. Because the Mortgage Loans to be made with proceeds of the Series 2007A 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 2007A Bonds. See "THE TRUST INDENTURE" herein.

THE SERIES 2007A 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 2007A 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 2007A BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

PLAN OF FINANCE

Proceeds of the Series 2007A Bonds will be (a) deposited to the 2007 A Mortgage Loan Account of the Mortgage Loan Fund and used to purchase 2007 A Mortgage Certificates, (b) applied, within ninety (90) days after the date of issuance of the Series 2007A Bonds, to refund and redeem all of the Department's Single Family Mortgage Revenue Bonds, 1997 Series A and Single Family Mortgage Revenue Bonds, 1997 Series D, thereby resulting in the allocation of (i) 1987 Series B Transferred Mortgage Loans, (ii) 1997 Series A Transferred Mortgage Certificates, and (iii) 1997 Series D Transferred Mortgage Certificates to the Series 2007A Bonds, (c) used to fund capitalized interest, if any, (d) used to provide down payment and closing cost assistance and (e) used to pay a portion of the costs of issuance of the Series 2007A Bonds.

In connection with the issuance of the Series 2007A Bonds, the Department expects to enter into an interest rate swap agreement (the "Swap Agreement") with Bear Stearns Financial Products Inc. ("BSFP"), which will become effective upon the delivery of the Series 2007A Bonds. Pursuant to the Swap Agreement payments will begin accruing on June 5, 2007 and payments will be made semiannually beginning on September 1, 2007. BSFP will agree to pay to the Department on such date, payments computed based on a variable rate intended to approximate the variable interest rate on the Series 2007A Bonds, on a notional amount corresponding to the outstanding principal amount of the Series 2007A Bonds, provided that the variable rate payments to the Department may not equal the variable interest payable on the Series 2007A Bonds. The Department will agree to pay to BSFP on such dates, payments computed at a fixed rate, on the same notional amount. Payments from the Department to BSFP under the Swap Agreement are subordinate to payments of principal of and interest on the Bonds. See "SWAP AGREEMENTS."

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SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 2007A Bonds are expected to be approximately as set forth below.

Sources:

Series 2007A Bond Proceeds	$143,005,000
Department Contribution	28,101
Master Servicer Contribution	963,406
Other Available Indenture Funds	100,000
Total Sources	$144,096,507

Uses:

2007 A Mortgage Loan Account	$106,324,121
Redemption of Refunded Bonds	36,700,000
Underwriters' Compensation	393,886
Costs of Issuance	678,500
Total Uses	$144,096,507

THE SERIES 2007A BONDS

General

The Series 2007A Bonds will be dated the date of delivery and will mature, subject to prior redemption as described below, on September 1, 2038. The Series 2007A 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 "-- DTC and Book-Entry" below. While the Series 2007A Bonds bear interest at a Daily Interest Rate or Weekly Interest Rate, individual purchases of Series 2007A 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.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A DAILY INTEREST RATE OR A WEEKLY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

The Series 2007A Bonds will initially bear interest at a Weekly Interest Rate. The method of determining interest rates on the Series 2007A 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 2007A Bonds shall be payable on each Interest Payment Date for such Series 2007A Bonds by the Paying Agent during any Daily Interest Rate Period or Weekly Interest Rate Period, by check mailed on the date on which interest is due to the Owners of the Series 2007A 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 Fifty-Fourth Supplemental Indenture. In the case of (i) Series 2007A Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility (the "Bank Bonds") or (ii) any Owner of Series 2007A Bonds bearing interest at a Daily Interest Rate or Weekly Interest 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 2007A Bonds, shall have provided, to the Paying Agent wire transfer instructions, interest payable on such Series 2007A 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 2007A Bonds (or by the Remarketing Agent on behalf of such Owner).

As the Paying Agent for the Series 2007A Bonds, The Bank of New York Trust Company, N.A. will keep the books of the Department for registration, registration of transfer, exchange and payment of the Series 2007A Bonds as provided in Fifty-Fourth Supplemental Indenture.

The Series 2007A Bonds will be subject to optional and mandatory tender for purchase under certain circumstances as described below.

Interest Rates

Interest on the Series 2007A Bonds will be computed, in the case of a Daily Interest Rate Period or a Weekly Interest Rate Period, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed. The first Interest Rate Period for the Series 2007A Bonds shall commence on the date of original issuance of the Series 2007A 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 2007A Bonds shall be determined by the Remarketing Agent.

The term of the Series 2007A Bonds will be divided into separate Interest Rate Periods selected by the Department during each of which the Series 2007A Bonds will bear interest at either a Daily Interest Rate or a Weekly Interest Rate (other than Bank Bonds which shall bear interest at the Bank Bond Interest Rate). At no time will any Series 2007A Bond (other than Bank Bonds) bear interest in excess of the Maximum Rate.

For any Daily Interest Rate Period or Weekly Interest Rate Period, interest on the Series 2007A Bonds will be payable on each March 1 and September 1, commencing September 1, 2007, 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, or beginning on September 1 and ending on February 28 or 29, as applicable, as the case may be. Interest payable on September 1, 2007 will be payable from the Delivery 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 2007A 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 2007A Bonds, would enable the Remarketing Agent to sell the Series 2007A 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 2007A 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 Business Day, or if a Daily Interest Rate determined by the Remarketing Agent for any day shall be held to be invalid or unenforceable by a court of law, then the interest rate for such Series 2007A Bonds for such day shall be a rate per annum equal to the lesser of (i) the SIFMA Swap Index Rate plus 0.25% and (ii) the Maximum Rate on the day the Daily Interest Rate would otherwise be determined by the Remarketing Agent.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A DAILY INTEREST RATE OR A WEEKLY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

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 2007A 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 2007A Bonds, would enable the Remarketing Agent to sell the Series 2007A 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 2007A 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 shall be held to be invalid or unenforceable by a court of law, then the interest rate for such Series 2007A Bonds for such week shall be the lesser of (i) the SIFMA Swap

Index Rate plus 0.25% and (ii) the Maximum Rate on the day the Weekly Interest Rate would otherwise be determined by the Remarketing Agent.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A DAILY INTEREST RATE OR A WEEKLY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

Adjustment of Interest Rate Periods

The Department may elect at any time to adjust the Interest Rate Period on the Series 2007A Bonds from one Interest Rate Period to an alternate Interest Rate Period, subject to certain conditions specified in the Fifty-Fourth Supplemental Indenture, including delivery of a Favorable Opinion of Bond Counsel and evidence that a Liquidity Facility satisfying the requirements of the Fifty-Fourth Supplemental Indenture 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 2007A Bonds).

If the Department elects to adjust the Series 2007A Bonds to a different Interest Rate Period, all of the Series 2007A Bonds will be subject to such different Interest Rate Period. The written direction by which the Department makes such election will specify (a) 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 15th day following the second Business Day after receipt by the Paying Agent of such direction from the Department and (ii) 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 (b) the date of delivery for the Series 2007A 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 Fifty-Fourth Supplemental Indenture, 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 satisfying the requirements of the Fifty-Fourth Supplemental Indenture will be in effect.

The Paying Agent will give notice by first class mail of any adjustment to a new Interest Rate Period not less than 15 days prior to the effective date of such new Interest Rate Period. Such notice will state (a) that the interest rate on the Series 2007A Bonds will be adjusted to a Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates or 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 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 2007A Bonds, if being adjusted from a Daily Interest Rate Period or a Weekly Interest Rate Period, will continue to bear interest at a Daily Interest Rate or a Weekly Interest Rate as in effect prior to such proposed adjustment in the Interest Rate Period; (b) the effective date of such different Interest Rate Period, and in the case of an adjustment to a 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 2007A Bond will be determined not later than the first day of such Bond Interest Term; (c) that the Series 2007A 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 2007A 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 2007A Bonds as provided in the Fifty-Fourth Supplemental Indenture and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as therein described, the Series 2007A 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 2007A 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 2007A 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 Fifty-Fourth Supplemental Indenture.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A DAILY INTEREST RATE OR A WEEKLY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

Establishment of an Alternate Rate

The Department, with the prior written consent of the Remarketing Agent and the Bank, if any, is authorized to amend or supplement the Fifty-Fourth 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 2007A 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, the intervals and procedures by which the Series 2007A Bonds may be optionally or mandatorily tendered and the redemption provisions for Series 2007A Bonds in an Alternate Rate Period. These changes will be noted on the Series 2007A Bonds or an amended Series 2007A 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 and the Bank, if any, in the manner prescribed by the amendment or supplement to the Fifty-Fourth Supplemental Indenture.

A change to an Alternate Rate Period from another Interest Rate Period shall cause a mandatory purchase of the Series 2007A Bonds. The requirements of the Fifty-Fourth Supplemental Indenture regarding notice, receipt of the prior written consent of the Remarketing Agent and the Bank, if any, and delivery of 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 a Business Day not earlier than the 15th day following the second Business Day after receipt by the Paying Agent of an election by the Department to change to an 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 2007A Bonds on the day the rate is set at a price (without regard to accrued interest) equal to the principal amount thereof.

The amendment to the Fifty-Fourth 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.

WITH RESPECT TO THE SERIES 2007A BONDS, THIS OFFICIAL STATEMENT PRIMARILY DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2007A BONDS ONLY WHILE THE SERIES 2007A BONDS BEAR INTEREST AT A DAILY INTEREST RATE OR A WEEKLY INTEREST RATE AND SHOULD NOT BE USED FOR A DESCRIPTION OF THE 2007A BONDS IN ANY OTHER INTEREST RATE PERIOD.

Tender Provisions

THE FIFTY-FOURTH SUPPLEMENTAL INDENTURE PROVIDES THAT SO LONG AS CEDE & CO. IS THE SOLE REGISTERED OWNER OF THE SERIES 2007A BONDS, ALL TENDERS FOR PURCHASE AND DELIVERIES OF SERIES 2007A BONDS TENDERED FOR PURCHASE OR SUBJECT TO MANDATORY TENDER UNDER THE PROVISIONS OF THE FIFTY-FOURTH 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 2007A Bond (other than Bank 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 2007A Bond and the date on which such Series 2007A 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 2007A Bond (other than Bank 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 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 2007A Bond and the date on which such Series 2007A 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 First Day of Each Interest Rate Period. The Series 2007A 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 2007A Bonds not being adjusted, at a purchase price, payable in immediately available funds, equal to the principal amount of the Series 2007A 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 2007A 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 Fifty-Fourth Supplemental Indenture that the Series 2007A 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 2007A 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 an event of 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 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 2007A 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 2007A Bonds, then the Series 2007A 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.

Irrevocable Notice Deemed to be Tender of Series 2007A Bonds. The giving of notice by an Owner of the election to have any Series 2007A Bond purchased during a Daily Interest Rate Period or a Weekly Interest Rate Period will constitute the irrevocable tender for purchase of such Series 2007A Bond regardless of whether such Series 2007A 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 2007A Bond which has not been delivered to the Tender Agent, in the case of a Series 2007A Bond purchased at the option of the Owner on the date specified for the purchase thereof or, in the case of a Series 2007A Bond subject to mandatory tender for purchase, on the date specified in the Fifty-Fourth Supplemental Indenture, are available for payment to the Owner of such Series 2007A Bond on such date, and at the time specified, from and after the date and time of that required delivery (a) such Series 2007A Bond will be deemed to be purchased and will no longer be deemed to be outstanding under the Trust Indenture or the Fifty-Fourth Supplemental Indenture; (b) interest will no longer accrue on such Series 2007A Bond; and (c) funds in the amount of the purchase price of such Series 2007A 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 2007A Bond to the Tender Agent at its Principal Office for delivery of Series 2007A 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 2007A 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 2007A Bonds should be delivered is The Bank of New York, 111 Sanders Creek Parkway, P.O. Box 396, East Syracuse, New York 13057, Attention: Bondholder Services.

Payment of Purchase Price. For payment of the purchase price of any Series 2007A Bond required to be purchased pursuant to the Fifty-Fourth Supplemental Indenture, such Series 2007A 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 guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program. In the event any such Series 2007A 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 2007A Bond, but such Series 2007A 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 Liquidity Termination. The Series 2007A Bonds shall not be subject to mandatory tender as a result of the occurrence of an Immediate Liquidity Termination. If the Paying Agent shall receive notice of the occurrence of an Immediate Liquidity Termination, within one Business Day following its receipt of such notice, it shall notify the Owners of Series 2007A Bonds that an Immediate Liquidity Termination, as applicable, has occurred. See "THE LIQUIDITY FACILITY AND THE BANK - Events of Default Resulting in Immediate Termination."

Insufficient Funds for Purchase of Series 2007A Bonds. If payment of the purchase price of any Series 2007A Bond shall not be made to the Owner thereof on any purchase date (a "Failed Purchase Date"), such Series 2007A 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 2007A Bonds, the Series 2007A Bonds shall bear interest at a variable rate per annum equal to the SIFMA Swap Index plus one percent (1%). In the event that the Department purchases or causes the purchase of the Series 2007A Bonds and a Liquidity Facility is in effect, such Series 2007A 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.

So long as a nominee of the Bond Depository is the sole Owner of the Series 2007A Bonds, all tenders for purchase and deliveries of Series 2007A Bonds tendered for purchase or subject to mandatory tender under the provisions of the Fifty-Fourth Supplemental Indenture shall be made pursuant to the Bond Depository's procedures as in effect from time to time, and neither the Department, the Tender Agent, the Paying Agent nor the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures.

Redemption Provisions

The Series 2007A 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 2007A 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 2007A 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 plus accrued interest thereon to, but not including, the date of redemption, from amounts representing lendable proceeds of the Series 2007A Bonds, if any, that are not to be used to purchase 2007 A Mortgage Certificates and are transferred to the 2007 A 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 2007 A Mortgage Certificates. The Department is not required to transfer unexpended proceeds to the 2007 A Redemption Subaccount unless such proceeds exceed $250,000.

Special Redemption From Mortgage Loan Principal Prepayments

The Series 2007A Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time on or after September 1, 2007, 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 2007A 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 2007A Bonds, to the 2007 A Redemption Subaccount, all in accordance with the Trust Indenture.

Special Redemption From Excess Revenues

The Series 2007A Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, on any March 1 or September 1 on or after September 1, 2007, 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 2007A Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from excess Revenues derived in connection with the Series 2007A Bonds.

In general, excess Revenues will consist of funds remaining on each Interest Payment Date, in the case of the Series 2007A Bonds, in the 2007 A Revenue Account after taking into account (1) the provision for payment of Debt Service on such Interest Payment Date, (2) the required transfers of amounts to the 2007 A Redemption Subaccount and the 2007 A Principal Subaccount, (3) the amounts, if any, required to fund the Debt Service Reserve Account on such Interest Payment Date, (4) the transfer of amounts to the 2007A Swap Agreement Periodic Payment Account, if any, and (5) the payment of Department Expenses in accordance with the Trust Indenture; and such excess Revenues will be transferred to the 2007 A Redemption Subaccount unless otherwise directed by the Department pursuant to a Letter of Instructions accompanied by a Statement of Projected Revenues.

Special Redemption of Bank Bonds

Bank Bonds are subject to redemption at such times and in such amounts as set forth in the Liquidity Facility.

Optional Redemption

The Series 2007A Bonds, during a Daily Interest Rate Period or a Weekly Interest Rate Period, are subject to optional redemption by the Department prior to maturity, after giving notice as provided in the Trust Indenture, 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.

Mandatory Sinking Fund Redemption

The Series 2007A Bonds are subject to scheduled mandatory redemption prior to maturity and shall be redeemed, after giving notice as provided in the Trust Indenture, in the principal amounts and on the dates set forth in the following table, at a Redemption Price equal to one hundred percent (100%) of the principal amount of Series 2007A Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

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Redemption Date	Principal Amount	Redemption Date	Principal Amount
September 1, 2008	$ 1,210,000	March 1, 2024	$ 2,740,000
March 1, 2009	1,240,000	September 1, 2024	2,815,000
September 1, 2009	1,270,000	March 1, 2025	2,885,000
March 1, 2010	1,300,000	September 1, 2025	2,970,000
September 1, 2010	1,335,000	March 1, 2026	3,055,000
March 1, 2011	1,370,000	September 1, 2026	3,135,000
September 1, 2011	1,410,000	March 1, 2027	3,225,000
March 1, 2012	1,450,000	September 1, 2027	3,310,000
September 1, 2012	1,485,000	March 1, 2028	3,400,000
March 1, 2013	1,520,000	September 1, 2028	3,505,000
September 1, 2013	1,565,000	March 1, 2029	3,520,000
March 1, 2014	1,605,000	September 1, 2029	2,995,000
September 1, 2014	1,645,000	March 1, 2030	2,890,000
March 1, 2015	1,695,000	September 1, 2030	2,330,000
September 1, 2015	1,735,000	March 1, 2031	2,405,000
March 1, 2016	1,780,000	September 1, 2031	2,475,000
September 1, 2016	1,835,000	March 1, 2032	2,545,000
March 1, 2017	1,880,000	September 1, 2032	2,620,000
September 1, 2017	1,935,000	March 1, 2033	2,695,000
March 1, 2018	1,980,000	September 1, 2033	2,775,000
September 1, 2018	2,040,000	March 1, 2034	2,855,000
March 1, 2019	2,090,000	September 1, 2034	2,940,000
September 1, 2019	2,155,000	March 1, 2035	3,030,000
March 1, 2020	2,205,000	September 1, 2035	3,120,000
September 1, 2020	2,265,000	March 1, 2036	3,210,000
March 1, 2021	2,330,000	September 1, 2036	3,295,000
September 1, 2021	2,390,000	March 1, 2037	3,390,000
March 1, 2022	2,455,000	September 1, 2037	3,335,000
September 1, 2022	2,525,000	March 1, 2038	1,980,000
March 1, 2023	2,595,000	September 1, 2038*	600,000
September 1, 2023	2,665,000		

* Final Maturity

The principal amount of the Series 2007A 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 2007A Bonds which (A) at least 45 days prior to the 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. Unless otherwise directed by the Department upon delivery of a Statement of Projected Revenues, (x) in the event Series 2007A Bonds are redeemed pursuant to special redemption from unexpended proceeds as set forth above, such redemption shall be credited against mandatory sinking funds in a manner as close to pro-rata as possible; and (y) in the event Series 2007A Bonds are redeemed pursuant to special redemption from Mortgage Loan Principal Prepayments or excess Revenues as set forth above, such redemption shall be credited against mandatory sinking funds in a chronological order.

Selection of Series 2007A Bonds to be Redeemed

The particular Series 2007A Bonds or portions thereof to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. Any Series 2007A 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 2007A Bonds for redemption, the Trustee shall treat each Series 2007A Bond in a denomination greater than the minimum Authorized Denomination as representing that number of Series 2007A Bonds of the minimum Authorized Denomination which is obtained by dividing the principal amount of such Series 2007A 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 2007A Bonds to the holders thereof, which notice shall specify the series and maturities of the Series 2007A 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 2007A Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2007A Bonds so to be redeemed, and, in the case of Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 2007A Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 2007A Bond so surrendered, registered Series 2007A Bonds in any Authorized Denomination. If, on the redemption date, moneys for the redemption of all the Series 2007A Bonds or portions thereof 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 2007A Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 2007A 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 2007A 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 2007A Bonds. The Series 2007A 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 2007A Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of Series 2007A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007A 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 2007A 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 2007A Bonds, except in the event that use of the book-entry system for the Series 2007A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007A 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 2007A 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 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007A 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 2007A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2007A Bonds may wish to ascertain that the nominee holding the Series 2007A 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 2007A 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 2007A 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 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2007A 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 2007A 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 2007A 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 2007A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 2007A 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 2007A BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2007A 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 2007A Bonds. Series 2007A Bonds may be exchanged for an equal aggregate principal amount of Series 2007A 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 2007A Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2007A Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2007A 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 2007A Bond for a period of 20 days next preceding an interest payment date on such Series 2007A Bonds or next preceding any selection of Series 2007A Bonds to be redeemed or thereafter until after mailing of any notice of redemption on any Series 2007A Bonds called for redemption, or transfer or exchange any Series 2007A Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 2007A Bond is registered as the absolute owner thereof for all purposes, whether such Series 2007A 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 2007A Bond. If any Series 2007A Bond is not presented for payment when the principal or the Redemption Price therefor becomes due, and if moneys sufficient to pay such Series 2007A 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 2007A 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 2007A 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 1997 SERIES A MORTGAGE CERTIFICATES, 1997 SERIES D MORTGAGE CERTIFICATES AND 1987 SERIES B MORTGAGE LOANS

Upon delivery of the Series 2007A Bonds for the purpose of refunding the 1997 Series A Bonds and 1997 Series D Bonds, the 1997 Series A Transferred Mortgage Certificates, 1997 Series D Transferred Mortgage Certificates and 1987 Series B Transferred Mortgage Loans will be allocated to the Series 2007A Bonds.

As of February 28, 2007, the outstanding principal amount of the 1997 Series A Transferred Mortgage Certificates and the 1997 Series D Transferred Mortgage Certificates was $37,251,636 and the outstanding principal amount of the 1987 Series B Transferred Mortgage Loans was $477,344. Substantially all of the 1997 Series A Transferred Mortgage Certificates and 1997 Series D Transferred Mortgage Certificates were acquired between February 1998 and February 2001 and had original terms of thirty years. The 1987 Series B Transferred Mortgage Loans were acquired between July 1987 and March 1990 and had original terms of thirty years. The original aggregate principal amount of the 1997 Series A Transferred Mortgage Certificates, 1997 Series D Transferred Mortgage Certificates and 1987 Series B Transferred Mortgage Loans was $131,664,364. The following table reflects information with respect to the 1997 Series A Transferred Mortgage Certificates, 1997 Series D Transferred Mortgage Certificates and 1987 Series B Transferred Mortgage Loans, as of February 28, 2007:

	Outstanding Principal	Mortgage Rate Range	Weighted Average Mortgage Rate	Weighted Average Remaining Term (in months)
1997 Series A Transferred Mortgage Certificates	$26,041,047	5.95/6.75%	6.35%	265
1997 Series D Transferred Mortgage Certificates	$11,210,589	5.95/6.75%	6.21%	270
1987 Series B Transferred Mortgage Loans	$477,344	7.99/8.05/8.70%	8.05%	135

The following table sets forth the estimates of approximate prepayment speeds for three, six and twelve month periods indicated below for the 1997 Series A Mortgage Certificates, 1997 Series D Mortgage Certificates and 1987 Series B Mortgage Loans with all prepayment speeds as a percentage of published BMA Prepayment Model:

	Approx. Prepayment Speed 3 Months Ending 02/28/07	Approx. Prepayment Speed 6 Months Ending 02/28/07	Approx. Prepayment Speed 12 Months Ending 02/28/07	Approx. Prepayment Speed Life Ending 02/28/07
1997 Series A Mortgage Certificates	105.9%	141.6%	163.3%	198.4
1997 Series D Mortgage Certificates	130.5%	159.1%	163.9%	187.6
1987 Series B Mortgage Loans	169.4%	276.4%	275.1%	411.3

The foregoing information regarding the 1997 Series A Mortgage Certificates, 1997 Series D Mortgage Certificates and 1987 Series B Mortgage Loans has been derived from information available from Bloomberg L.P. No assurance can be given that the projected weighted average remaining term or the prepayment speed status of the 1997 Series A Mortgage Certificates, 1997 Series D Mortgage Certificates and 1987 Series B Mortgage Loans at the time of transfer will resemble those characteristics of the 1997 Series A Mortgage Certificates, 1997 Series D Mortgage Certificates and 1987 Series B Mortgage Loans.

THE LIQUIDITY FACILITY AND THE BANK

There follows under this caption certain information concerning 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.

The Liquidity Facility

The Department will cause to be executed and delivered to the Trustee, simultaneously with the issuance of the Series 2007A Bonds, the Liquidity Facility, by and among the Department, the Tender Agent and the Bank, providing for the purchase, in accordance with the terms and conditions thereof, of each Series 2007A Bond, which is in a Daily Rate Period or a Weekly Rate Period and is tendered for purchase, as provided in the Trust Indenture, and not remarketed; provided, however, that Series 2007A Bonds owned by the Department or any Affiliate 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 the Liquidity Facility, or if not there defined, as defined in this Official Statement or the Trust Indenture, as applicable, 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 2007A Bonds described therein.

General

The purchase price of each Series 2007A Bond tendered for purchase is payable from the proceeds of the remarketing of such Series 2007A Bond and, to the extent remarketing proceeds are insufficient or not available therefor, and pursuant to the terms and conditions of the Liquidity Facility, from amounts available under the Liquidity Facility. The Liquidity Facility requires the Bank to provide funds for the purchase of Series 2007A Bonds which are "Eligible Bonds", subject to certain conditions described below. Series 2007A Bonds to be purchased and held by the Bank will bear interest at the Bank Rate in accordance with 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 Series 2007A 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 2007A Bonds purchased by the Bank pursuant to the related Liquidity Facility and (c) upward by the principal amount of Series 2007A 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. 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 2007A Bonds (the "Effective Date") and shall be effective from the Effective Date until the Expiration Date which is the earliest of (i) June 5, 2012, or to an extended date as may become effective under the Liquidity Facility (the "Expiration Date"), (ii) the date on which no Series 2007A 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 2007A Bonds terminates pursuant to the Liquidity Facility, (v) the first date on which the Series 2007A Bonds are paid in full, or (vi) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to the Liquidity Facility.

The Available Commitment shall automatically terminate after the mandatory purchase has been honored by the Bank on the Business Day immediately preceding the Substitution Date. Additionally, Department may, upon (i) providing the Bank with 90 days' prior written notice, (ii) complying with the requirements of the Indenture, (iii) paying to the Bank all costs, fees and payments due under the Liquidity Facility, (iv) paying to the Bank all principal and accrued interest owing with respect to any Bank Bonds or pursuant to the Liquidity Facility, and (v) providing a Substitute Liquidity Facility or converting the Bonds to a Non Covered Rate, terminate the Liquidity Facility; provided, however, that the Bank shall continue to purchase Series 2007A Bonds optionally or mandatory tendered (and not remarketed, if applicable) prior to the termination of the Liquidity Facility.

On each date on which Series 2007A 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 2007A 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 Eligible Bonds required to be purchased by the Bank.

Events of Default

As described below, the Liquidity Facility provides that the obligation of the Bank to purchase Eligible Bonds tendered by Bondholders or subject to mandatory tender may be terminated upon the occurrence of certain events. If the Liquidity Facility is terminated, sufficient funds may not be available to purchase Series 2007A Bonds tendered by the Bondholders thereof.

Events of Default Not Resulting in Immediate Termination

The following events are the Events of Default under the Liquidity Facility:

(a) Except as described in (b) of the next section, the Department shall fail to pay when due any amounts owed by the Department to the Bank pursuant to the Liquidity Facility; or

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

(c) The Department shall default in the due performance or observance of any of the covenants set forth in specified sections of the Liquidity Facility relating to amending Related Documents, preserving the existence of the Department, consolidating or merging the Department and the Department's use of the proceeds of Bank Bonds; or

(d) 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 described in the caption "THE LIQUIDITY FACILITY AND THE BANK --Events of Default Not Resulting in Immediate Termination" and "-Event of Default Resulting in Immediate Termination") or the Related Documents and such default shall remain unremedied for a period of 30 days or more; or

(e) Default by the Department in the payment of any amount due in respect of any Debt owed to the Bank or default by the Department in the payment of any amount due in respect of any other Debt (other than the Series 2007A Bonds or any Material Debt) in an aggregate amount in excess of $1,000,000 (measured in the case of any Interest Rate Protection Agreement (as defined in the Liquidity Facility), by the Department's Exposure thereunder), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Debt is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any act or omission by the Department under any such mortgage agreement or other instrument which results in such Debt becoming, or being capable of becoming, immediately due and payable (or, with respect to any Interest Rate Protection Agreement, which results in such Interest Rate Protection Agreement being terminated early or being capable of being terminated early); or

(f) Except as provided in paragraph (d) of the next section, any provision of the Liquidity Facility, the Series 2007A Bonds or any of the Related Documents shall cease to be valid and binding, or the Department shall contest any such provision, or the Department or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Liquidity Facility, the Series 2007A Bonds or any of the Related Documents; or

(g) Except as described in any other paragraph of the captions "THE LIQUIDITY FACILITY AND THE BANK --Events of Default Not Resulting in Immediate Termination" and "-Event of Default Resulting in Immediate Termination," any event of default under any of the Related Documents shall occur; or

(h) The rating assigned to the Series 2007A Bonds or any Material Debt by Moody's, S&P or Fitch, shall be withdrawn, suspended or falls below "A3" by Moody's, "A-" by S&P or "A-" by Fitch; or

(i) A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Series 2007A Bonds is includable in the gross income of the holder(s) or owner(s) of such Series 2007A Bonds and either (i) the Department, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Department shall challenge such ruling, assessment, notice or advice and a court of law make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(j) Entry of filing of any judgment, writ or warrant of attachment or of any similar process in an amount in excess of $5,000,000 against the Department or against any of its property and failure of the affected entity to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment.

Events of Default Resulting in Immediate Termination

The following Events of Default shall constitute an "Immediate Termination Event."

(a) An Event of Insolvency shall have occurred with respect to the Department; or

(b) Any failure, wholly or partially, to make timely any payment required to be made (i) on the Series 2007A Bonds or (ii) on any other Material Debt; or

(c) The Department shall, in writing to the Trustee, the Tender Agent, the Bank or otherwise, (i) claim that the Indenture, the Series 2007A Bonds or the Liquidity Facility is not valid or binding on the Department, (ii) repudiate its obligations under the Trust Indenture, the Series 2007A Bonds or the Liquidity Facility or its obligation to repay any Material Debt and/or (iii) initiate any legal proceedings to seek an adjudication that the Indenture, the Series 2007A Bonds or the Liquidity Facility or its obligation to repay any Material Debt is not valid or binding on the Department; or

(d) Any court of competent jurisdiction or other governmental entity with jurisdiction to rule on the validity of the Liquidity Facility, the Series 2007A Bonds or the Indenture shall find or rule that the Liquidity Facility, the Series 2007A Bonds or the Indenture is not valid or not binding on the Department; or

(e) The long-term ratings assigned to the Series 2007A Bonds or any Material Debt by each Rating Agency shall be withdrawn, suspended or lowered below Investment Grade.

Remedies upon an Event of Default

If any Event of Default occurs, the Bank has the following remedies:

(i) Upon the occurrence of any Immediate Termination Event, the Commitment Period and the obligation of the Bank to purchase Eligible Bonds shall immediately terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase Eligible Bonds. Upon such Immediate Termination Event, the Bank shall promptly give written notice of the same to the Tender Agent, the Department and the Remarketing Agent; provided, that the Bank shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and the Bank's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility. The Tender Agent has covenanted to immediately notify all Bondholders of the termination of the Available Commitment and the obligation of the Bank to purchase the Eligible Bonds.

(ii) Upon the occurrence of an Event of Default described under the caption "THE LIQUIDITY FACILITY AND THE BANK - Events of Default Not Resulting in Immediate Termination," the Bank may give written notice of such Event of Default to the Department, the Tender Agent and Remarketing Agent stating that the Liquidity Facility shall terminate 15 days after such notice is received by the Tender Agent and directing that the Series 2007A Bonds be called for Termination Tender. The Available Commitment, the Commitment Period and the obligation of the Bank to purchase Eligible Bonds shall terminate 15 days after such notice is received by the Tender Agent, and on such date the Available Commitment shall terminate and the Bank shall be under no obligation hereunder to purchase Eligible Bonds.

(iii) Upon the occurrence of any Event of Default, (i) all amounts owed to the Bank under the Liquidity Facility and under any Bank Bonds shall bear interest at the Default Rate until paid, (ii) the Bank may by written notice to the Department declare that all amounts owed to the Bank hereunder and with respect to the Bank Bonds to be immediately due and payable whereupon such amounts will be immediately due and payable (provided, that the obligations of the Department under the Liquidity Facility and under the Bank Bonds shall be and become automatically and immediately due and payable without such notice upon the occurrence of an Event of Default described in paragraph (a) under "THE LIQUIDITY FACILITY AND THE BANK -- Events of Default Resulting in Immediate Termination") and (iii) the Bank shall have all remedies provided at law or equity, including, without limitation, the right of set-off and specific performance. The Bank shall promptly provide written notice to the Trustee and the Department of any acceleration of the amounts due under the Liquidity Facility.

(iv) In the case of any Event of Default under the Liquidity Facility the Bank shall have the right, but not the obligation, to cure any such Event of Default (in which case the Department shall reimburse the Bank therefor pursuant to the Liquidity Facility).

Selected Definitions

"Affiliate" means, with respect to the Bank, any Person, which is controlled by, or is under common control with, the Bank; otherwise, "Affiliate" of any specified Person means any other Person which "controls," or is "controlled" by, or is under common "control" with, such specified Person. For purposes of this definition, a Person "controls" another Person when the first Person possesses or exercises directly, or indirectly through one or more other affiliates or related entities, the power to direct the management and policies of the other Person, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract, or otherwise.

"Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment.

"Bank Bonds" means each Bond purchased with funds provided by the Bank under the terms of the Liquidity Facility until remarketed or redeemed in accordance with such Liquidity Facility.

"Bank Rate" means, for each day of determination with respect to any Bank Bond, except as provided in the Liquidity Facility, a rate per annum equal to (i) for the period from and including the Purchase Date of such Bank Bond to but not including the earlier to occur of (x) the last day of the Commitment Period and (y) the date which is 45 days immediately following the related Purchase Date, the Base Rate from time to time in effect, (ii) for the period from and including the date which is 46 days immediately following the related Purchase Date to but not including the earlier to occur of (x) the last day of the Commitment Period and (y) the date which is 90 days immediately following the related Purchase Date, the Base Rate from time to time in effect plus .50%, and (iii) from and after the earlier of (x) the last day of the Commitment Period, and (y) the date which is 91 days immediately following the related Purchase Date, the Base Rate from time to time in effect plus 1.0%; provided that from and after the occurrence of an Event of Default, the *"Bank Rate"* shall mean the Default Rate.

"Base Rate" means, for any day, an interest rate per annum equal to the higher of (a) the Prime Rate (as defined in the Liquidity Facility) for such day and (b) the sum of 0.50% plus the Fed Funds Rate for such day.

"Commitment Period" means the period from the Effective Date (as defined in the Liquidity Facility) to and including the Maturity Date (as defined in the Liquidity Facility) .

"Conversion Date" means the first business day on which the Series 2007A Bonds bear interest at a Non Covered Rate.

"Debt" of any Person means, at any date, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by certificates of participation, bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such Person as lessee under capital leases, (e) all Debt of others secured by a lien on any asset of such Person, whether or not such Debt is assumed by such Person, (f) all guarantees by such Person of Debt of other Persons, and (g) all Interest Rate Protection Agreements (as defined in the Liquidity Facility), in each case provided that such Debt is issued pursuant to the Indenture.

"Default Rate" means the Base Rate from time to time in effect plus 3.00% per annum.

"Eligible Bonds" means any Series 2007A Bonds outstanding under and entitled to the benefits of the Indenture that are tendered or deemed tendered pursuant to the optional tender provisions or the mandatory tender provisions, other than (a) Series 2007A Bonds owned by, for the account of, or on behalf of, the Department or any Affiliate of the Department, (b) Bank Bonds, and (c) Series 2007A Bonds bearing interest at a Non Covered Rate.

"Event of Insolvency" means, with respect to any Person, the occurrence of one or more of the following events:

(a) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of such Person;

(b) the commencement by or against such Person of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the such Person or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for such Person or any substantial part of its property or there shall be appointed or designated with respect to it, an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or there shall be declared or introduced or proposed for consideration by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it;

(c) the making of an assignment for the benefit of creditors by such Person;

(d) the failure of such Person to generally pay its debts as they become due;

(e) the declaration of a moratorium with respect to the payment of the debts of such Person;

(f) such Person shall admit in writing its inability to pay its debts when due; or

(g) the initiation of any actions to authorize any of the foregoing by or on behalf of such Person.

"Fed Funds Rate" means, for any day, the rate of interest per annum as determined by the Bank at which overnight Federal Funds are offered to the Bank at its New York office for such day by major banks in the interbank market, with any change in such rate to become effective on the date of any change in such rate. Each determination of the Fed Funds Rate by the Bank shall be deemed conclusive and binding on the Issuer absent manifest error.

"Indenture" has the meaning assigned to such term in the Liquidity Facility.

"Investment Grade" means a rating of "Baa3" (or its equivalent) or better by Moody's, "BBB-" (or its equivalent) or better by Fitch or "BBB-" (or its equivalent) or better by S&P.

"Material Debt" means all Debt on a parity with the Series 2007A Bonds.

"Non Covered Rate" means each of the Bond Interest Term Rate, the Long Term Interest Rate and the Alternate Rate, in each case as defined in the Fifty-Fourth Supplemental Indenture.

"Person" means an individual, a corporation, a partnership, an association, a trust, a business trust, a limited liability company or any other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Purchase Date" means the date any Eligible Bonds become Bank Bonds.

"Purchase Price" means, with respect to any Eligible Bond or portion thereof, the unpaid principal amount with respect thereto plus accrued interest with respect thereto from the first day of the then current Interest Accrual Period (as defined in the Liquidity Facility) to but excluding the Purchase Date thereof, in each case, without premium; provided that accrued interest will not be taken into account in the computation of the Purchase Price if the applicable Purchase Date is an Interest Payment Date (other than an Interest Payment Date applicable solely to the Interest Component (as defined in the Liquidity Facility) or the Differential Interest Amount (as defined in the Liquidity Facility); and provided further that the aggregate amount of Purchase Price constituting the Interest Component shall not exceed the amount specified in the Liquidity Facility; and provided further, in no event shall the Purchase Price of any Bond include Defaulted Interest (as defined in the Liquidity Facility).

"Related Documents" means the Liquidity Facility, the Series 2007A Bonds, the Indenture, the Official Statement, the Remarketing Agreement (as defined in the Liquidity Facility), the Tender Agreement (as defined in the Liquidity Facility) and any other document or instrument executed and delivered in connection with the foregoing, including any exhibits, instruments or agreements relating thereto.

"Substitute Liquidity Facility" means a standby bond purchase agreement or other form of liquidity facility entered into by the Department as a substitute or replacement for the Liquidity Facility.

"Substitution Date" means the Business Day on which a Substitute Liquidity Facility becomes effective.

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, the Underwriters or the Remarketing Agent. This information has not been independently verified by the Department, the Underwriters or the Remarketing Agent. No representation is made by the Department, the Underwriters 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 issued under the Irish Central Bank Act, 1971 (as amended) and is supervised by the Financial Regulator. 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, 2006, DEPFA had total consolidated assets of Euro 222.9 billion, shareholders' equity of Euro 2.7 billion and consolidated net income of Euro 526 million, determined in accordance with International Financial Reporting Standards (IFRS). DEPFA maintains its records and prepares its financial statements in Euro. At December 31, 2006, the exchange rate was 1.0000 Euro equals 1.32027 United States dollars. Such exchange rate fluctuates from time to time.

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. On January 25, 2006, Fitch confirmed DEPFA's long term and short term rating, with a stable outlook. On November 22, 2006, S&P confirmed DEPFA's long term and short term rating and revised DEPFA's long term outlook to negative from stable. On June 1, 2006, Moody's confirmed DEPFA's long term and short term rating, with a stable outlook.

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.

SWAP AGREEMENTS

In connection with the issuance of the Series 2007A Bonds, the Department expects to enter into an interest rate swap agreement (the "Swap Agreement ") with BSFP, which will become effective upon the delivery of the Series 2007A Bonds. Pursuant to the Swap Agreement, payments will begin accruing on the date of delivery of the Bonds and payments will be made semiannually beginning on September 1, 2007. BSFP will agree to pay to the Department on such dates, payments computed based on a variable rate equal to the lesser of (i) the greater of ((a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and (ii) LIBOR, intended to approximate the variable interest rate on the Series 2007A Bonds, on a notional amount corresponding to the outstanding principal amount of the Series 2007A Bonds, provided that the variable rate payments to the Department may not equal the variable interest payable on the Series 2007A Bonds. The Department will agree to pay to BSFP on such dates, payments computed at a fixed rate of 4.013%, on the same notional amount. Payments from the Department to BSFP under the Swap Agreement are subordinate to payments of principal of and interest on the Bonds. The payment obligations of the Department and BSFP under the Swap Agreement may be netted against other swap transactions between such parties.

In connection with the issuance of certain Prior Bonds, the Department has entered into the following interest rate swap agreements (the "Prior Swap Agreements," and together with the Swap Agreement, the "Swap Agreements") and with the respective swap providers described below (the "Prior Swap Providers," and together with BSFP, the "Swap Providers"), as shown in the table below. Under each of the Prior Swap Agreements, the Department is obligated to make payments to the related Swap Provider at a fixed rate and is to receive from such Swap Provider a floating rate payment based upon the variable rate index shown in the table.

Related Series	Swap Provider	Initial Notional Amount	Fixed Rate	Variable Rate Index
2004 Series B	UBS AG	$ 53,000,000	3.843%	63% of LIBOR + .30%
2004 Series D	Goldman Sachs Capital Markets, L.P.	$ 35,000,000	3.6125%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2005 Series A	Bear Stearns Financial Products Inc.	$100,000,000	3.99%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2006 Series H	UBS AG	$ 36,000,000	3.857%	63% of LIBOR + .30%

Scheduled payments under the Swap Agreements are subordinate to payments of principal and interest on the Bonds. The Department's scheduled payments under the Prior Swap Agreements (other than the swap associated with the 2006 Series H Bonds) are insured by FSA.

The Swap Agreements present certain financial risks to the Department under the Trust Indenture. See "ASSUMPTIONS AND RISKS – Swap Basis Risk" and " – Swap Termination Risk" herein, and Note 12 of APPENDIX D-1 – AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS FOR THE FISCAL YEAR ENDED AUGUST 31, 2006.

SECURITY FOR THE BONDS

Pledge of Trust Indenture

The Bonds, including the Series 2007A Bonds, are equally and ratably secured by the Trust Indenture for the equal benefit, protection and security of the owners of the Bonds, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Trust Indenture.

Principal or Redemption Price of and interest on all Bonds are payable solely from and are secured by a pledge of and lien on the Trust Estate, which consists generally of the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), money and Investment Securities held in the Funds (excluding the Rebate Accounts, the Swap Agreement Termination Payment Subaccounts and the Swap Agreement Termination Receipt Subaccounts of the Surplus Revenues Account of the Revenue Fund and the Policy Payments Accounts), 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 Prior Swap Agreements.

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 February 28, 2007, the Debt Service Reserve Requirement for the Bonds was $577,487. As of such date, $941,870 was on deposit in the Debt Service Reserve Account. Because the Mortgage Loans to be made with a portion of the proceeds of the Series 2007A 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 2007A Bonds.

The Department has covenanted in the Trust Indenture to diligently enforce, 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, to enforce any insurance policy or guaranty relating to a Mortgage Loan, and to foreclose Mortgages or to enforce the 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 Bonds (other than any taxable bonds).

The Series 2007A 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 2007A 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 2007A Bonds or any other obligations issued by the Department.

The Prior Bonds

In addition to the Series 2007A Bonds to be issued, forty-nine series of the Department's Single Family Mortgage Revenue Bonds have been issued pursuant to the Trust Indenture, and to the extent Outstanding are secured on an equal and ratable basis by the Trust Estate established by the Trust Indenture. As of February 28, 2007, twenty-three series of such Prior Bonds were Outstanding in an aggregate principal amount of $941,390,000. For more detailed information concerning the original principal amounts and Outstanding amounts of the Prior Bonds, please refer to "APPENDIX F-1 – THE 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, 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 February 28, 2007, $11,920,0000 of such bonds remain outstanding. For additional information on the Junior Lien Bonds, see "APPENDIX F-1 – THE DEPARTMENT'S MORTGAGE LOAN PORTFOLIO – Junior Lien Trust Indenture". 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 February 28, 2007, the Outstanding amount of Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds was $684,227,634. 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 – THE DEPARTMENT'S MORTGAGE LOAN PORTFOLIO."

Since the inception of the Department's Program, the Department has foreclosed on approximately 3,066 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of $157,693,264. As of February 28, 2007, the Department continues to hold title to property securing two of such Mortgage Loans aggregating $17,310. 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 – THE 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 2007A 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 2007A 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 2007A 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 Accounts, the Swap Agreement Termination Payment Subaccounts, the Swap Agreement Termination Receipt Subaccounts and the Policy Payments Accounts) 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 2007A Bonds deposited into the 2007 A Mortgage Loan Account will be invested with Transamerica Occidental Life Insurance Company, at an investment rate of 5.062% per annum, with an investment maturity date of September 1, 2009. Moneys in the 2007 A Revenue Account for the Series 2007A Bonds will be invested with Transamerica Occidental Life Insurance Company, at an investment rate of 4.32% per annum, with an investment maturity date of September 1, 2038.

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 does not as a matter of course make public projections as to future revenues or expenses. However, the management of the Department will prepare the prospective financial information set forth above to present the estimates of Revenues with the Debt Service requirements and estimated Department Expenses with respect to the outstanding bonds. The Statement of Projected Revenue will not be prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department's management, will be prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Department. However, this information will not be fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the projected financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the projected financial information that will be prepared, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the projected financial information.

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 may be used to pay principal, interest and redemption price on Junior Lien Bonds or 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 first lien 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 Trust Indenture imposes no requirement for mortgage pool insurance upon the Series 2007A 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 Mortgage Certificates or Mortgage Loans

The Department may sell the 2007 A Mortgage Certificates, the 1997 Series A Transferred Mortgage Certificates, the 1997 Series D Transferred Mortgage Certificates, or the 1987 Series B Transferred Mortgage Loans 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 2007 A Mortgage Certificates, the 1997 Series A Transferred Mortgage Certificates, the 1997 Series D Transferred Mortgage Certificates, the 1987 Series B Transferred Mortgage Loans, or the Series 2007A 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 bond insurance or similar credit enhancement). If proceeds from the sale of the 2007 A Mortgage Certificates, the 1997 Series A Transferred Mortgage Certificates, the 1997 Series D Transferred Mortgage Certificates, or the 1987 Series B Transferred Mortgage Loans are to be applied to the redemption of Series 2007A Bonds, such Series 2007A Bonds must be redeemed under the applicable optional redemption provision.

ASSUMPTIONS AND RISKS

Assumptions

On the basis of the Statement of Projected Revenues prepared in connection with the issuance of the Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds proceeds and certain other amounts held under the Trust Indenture will be sufficient to pay the Underwriters' fees with respect to the Series 2007A Bonds and the other costs of issuing the Series 2007A Bonds;

(f) the Mortgage Loans associated with the Series 2007A Bonds will have a, or had an original, term of thirty (30) years, and will provide for payment of principal and interest in approximately equal monthly installments.

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

Termination of Mortgage Loans and Mortgage Certificates

Mortgage Loans and Mortgage Certificates may be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments, default, sale, condemnation, casualty loss or noncompliance with the Program. All Mortgage Loan Principal Prepayments or other payments in respect of early termination will be deposited in the Revenue Fund and transferred to the Principal Account or the Redemption Account of the Debt Service Fund for use to redeem Bonds in accordance with the Trust Indenture. **Accordingly, the Department anticipates that substantially all of the Series 2007A 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 Master Servicer from issuing Ginnie Mae Certificates prior to the acquisition date therefor, the Mortgage Lenders may be unable to originate Mortgage Loans and the Master 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 2007A Bonds prior to their maturity.** See "THE SERIES 2007A BONDS - Redemption Provisions."

Swap Basis Risk

In connection with the issuance of certain Bonds, the Department has entered into the Prior Swap Agreements and the Department expects to enter into a Swap Agreement in connection with the issuance of the Series 2007A Bonds. Pursuant to the Swap Agreements the Department will pay the Swap Providers payments computed at a fixed rate based on a notional amount which corresponds to the outstanding principal balance of the Bonds associated with the respective Swap Agreements, and the Swap Providers will pay the Department payments computed based on variable rate indices on the same notional amounts. The variable rate indices used under the Swap Agreements are based on respective percentages of LIBOR, which are intended to approximate the variable interest rate on the Bonds associated with the Swap Agreements. Unlike LIBOR, however, the interest on the Bonds associated with the Swap Agreements 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 indices used under the Swap Agreements and the interest rates on the Bonds associated with the Swap Agreements 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 Agreements will closely approximate the Department's interest obligation on the Bonds associated with the Swap Agreements, in certain interest rate and taxation environments the amounts paid under the Swap Agreements may be less than the interest obligation on the Bonds associated with the Swap Agreements. Regardless of the amount of moneys received under the Swap Agreements, the Department is obligated to make interest payments on variable rate Bonds at rates that are determined by the respective Remarketing Agents. Any mismatch between Bond interest payments associated with the Swap Agreements and the payments due under the Swap Agreements could cause financial losses under the Trust Indenture. See "SWAP AGREEMENTS" and Note 12 of APPENDIX D-1 – AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS FOR THE FISCAL YEAR ENDED AUGUST 31, 2006.

Swap Termination Risk

Under certain circumstances, including certain events of default with respect to the Department or the Swap Providers, the Swap Agreements may be terminated in whole or in part prior to maturity. Following termination, if any, of the Swap Agreements in whole or in part prior to maturity, under certain market conditions, the Department could owe a termination payment to the respective Swap Providers that could be substantial. Such termination payment will be payable from amounts pledged under the Trust 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 2007A Bonds, and all Senior Bonds and Junior Lien Bonds, if any, (iv) the payment of regularly scheduled payments under the Swap Agreements, and (v) required replenishment of the Debt Service Reserve Fund, if any. A bond insurer has issued swap insurance policies insuring the scheduled fixed payments from the Department for all of the Prior Swap Agreements, except the 2006 Series H Bonds. In addition, the Department's obligation to make termination payments, if any, on the Prior Swap Agreements relating to the 2004 Series B Bonds are also insured up to a certain maximum amount. The Department's obligation to reimburse the bond insurer, if any, and to pay any Swap Provider that is owed a termination payment is subordinate to scheduled payment of principal of and interest on all Senior Bonds and Junior Lien Bonds, if any, the payment of regularly scheduled payments under the Prior Swap Agreements, and any required replenishment of the Debt Service Reserve Fund. See "SWAP AGREEMENTS" and Note 12 of APPENDIX D-1 – AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS FOR THE FISCAL YEAR ENDED AUGUST 31, 2006. The termination payment relating to the current Swap Agreement is not insured by a bond insurer. Accordingly, such termination payment would be payable by the Department as noted above.

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, unless otherwise instructed by the Department in writing, of twenty percent (20%) of the lendable proceeds of the Series 2007A Bonds for Mortgage Loans in certain federally designated targeted areas, the reservation for a period of one year of approximately $15,000,000 of the lendable proceeds of the Series 2007A Bonds for GO Zone Mortgage Loans, the reservation for a period of one year (or such longer period as determined by the Department) of thirty percent of the lendable funds made available through the issuance of the Series 2007A Bonds for persons of families of very low income (not exceeding sixty percent (60%) of the applicable area median family income) 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, – Very Low Income 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 its Single Family Mortgage Revenue Bond Program. Additionally, the Department has, as of April 2, 2007, no mortgage funds available under its Residential Mortgage Revenue Bond Program. Mortgage certificates purchased with the proceeds of its Residential Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of April 2, 2007:

Active Program	Program Start Date	Mortgage Rate	Mortgage Funds Available	Amounts Purchased	Reservation Amounts[1]	Remaining Funds
Program 61	05/03/2004	4.99/5.50%	$176,928,983	$175,101,923	$ 1,800,294	$ 26,766
Program 62A	04/21/2005	4.99%	101,764,092	97,196,915	4,542,794	24,383
Program 66	06/12/2006	5.625/6.125/ 5.875%	241,384,533	163,780,969	59,124,524	18,479,040
Program 68	11/16/2006	5.65/5.99/ 6.20%	132,030,000	44,525,465	60,504,019	27,000,516

(1There 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 2007A Bonds prior to their maturity. See "THE SERIES 2007A BONDS - Redemption Provisions."

Availability of Remedies

The remedies available to the owners of the Series 2007A 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, such as mandamus, 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 Program Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2007A 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, Texas 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 the presiding officer (the "Chair") of the Board at the pleasure of the Governor. The Chair presides at all meetings and performs such other duties as may be prescribed from time to time by the Board and by the Act. In addition, the members of the Board elect one of its members as assistant presiding officer (the "Vice Chair") to perform the duties of the Chair when the Chair is not present or is incapable of performing such duties. The Board also elects a Secretary and a Treasurer (which offices may be held by one individual and neither office-holder 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. Marketing/Information Technology Consultant, Dallas, Texas. Her term expires January 31, 2007.

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

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

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

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

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

[VACANCY]

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

Administrative Personnel

The Act provides that the 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 275 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.

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

WILLIAM DALLY, Deputy Executive Director for Administration. Mr. Dally initially joined the Department on the Internal Audit staff in May 1994. On May 1, 1999, Mr. Dally was promoted to the position of Chief Financial Officer after serving as the Department's Controller since January 1996. Mr. Dally is presently responsible for the Department's management of fiscal affairs, including budgets and financial reporting. In his current role, Mr. Dally also oversees the Compliance Monitoring Functions of the Department 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.

MATTHEW M. POGOR, Director of Bond Finance. Matt Pogor joined the Department as Bond Compliance and Disclosure Manager on October 4, 1994. On February 1, 2001, Mr. Pogor was promoted to the position of Bond Finance Project Manager. Mr. Pogor assumed the position of Acting Director of Bond Finance on May 15, 2006 and became the Director of Bond Finance on November 16, 2006. 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. Pogor also oversees ongoing compliance monitoring and disclosure requirements related to the Department's investments and single family and multifamily bond programs. Mr. Pogor earned a Bachelor of Business Administration degree in Management with a minor in Accounting from St. Edwards University in Austin, Texas. Prior to employment with the Department, Mr. Pogor was a Project Manager for IBM in Austin.

ERIC PIKE, Director of the Texas Homeownership Program. He began his career at the Agency with the Community Development Block Grant Program (CDBG) prior to joining the Single Family Lending Division. While in Single Family, he was responsible for administration of the Single Family Mortgage Revenue Bond Programs primary vehicle, the Texas First Time Homebuyer Program and subsequently the application development and award of the Department's HOME Investment Partnerships (HOME) Program. As director of the newly created Texas Homeownership Division, he is responsible for administration of the Texas Statewide Homebuyer Education Program (TSHEP) and continues his responsibilities regarding the administration of the Texas First Time Homebuyer Program. Mr. Pike received his Bachelor of Business Administration in Finance and his Masters of Business Administration in Business Management from St. Edward's University in Austin.

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

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 69

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 2007A Bonds will be designated as the Department's Bond Program No. 69 ("Program 69"). In connection with the issuance of the Series 2007A 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 2007A Bonds, the Trustee on behalf of the Department has agreed to purchase 2007 Mortgage Certificates.

Mortgage Loans evidenced by the 2007 Mortgage Certificates will bear interest at the rate established upon the issuance of the Series 2007A Bonds, subject to subsequent adjustment by the

Department pursuant to the provisions of the Trust Indenture. The purchase price for the 2007 Mortgage Certificates will be 103.80% of par (plus accrued interest) for Ginnie Mae Certificates, 104.20% of par (plus accrued interest) for Freddie Mac Certificates and 104.00% of par (plus accrued interest) for Fannie Mae Certificates with respect to Assisted Mortgage Loans, and will be 98.80% of par (plus accrued interest) for Ginnie Mae Certificates, 99.20% of par (plus accrued interest) for Freddie Mac Certificates and 99.00% of par (plus accrued interest) for Fannie Mae Certificates with respect to Non-Assisted Mortgage Loans. The purchase prices described in this paragraph are subject to adjustment upon written notice from the Department. The Department will purchase the 2007 Mortgage Certificates during a Certificate Purchase Period which will expire on February 1, 2009, but which may be shortened or extended, upon compliance with the terms of the Fifty-Fourth Supplemental Indenture. A portion of the proceeds of the Series 2007A Bonds will be deposited into the 2007 A Special Mortgage Loan Subaccount and may be used to create Special Mortgage Loans. In order to address certain federal tax issues, the Department expects to originate approximately $9,300,000 of 0% 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 69 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 69 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 H – APPLICABLE MEDIAN FAMILY INCOMES AND ACQUISITION COST LIMITATIONS) borrowers in areas outside the Rita GO Zone and to the borrowers with incomes up to one hundred forty percent (140%) of AMFI (see APPENDIX H – APPLICABLE MEDIAN FAMILY INCOMES AND ACQUISITION COST LIMITATIONS) located in the Rita GO Zone. The maximum amount of GAP down payment and closing costs assistance available will be five percent (5%) of the amount of the Mortgage Loan and no second lien will be required.

Targeted Area Reservation

General

For the first twelve months of Program 69 (commencing on the date proceeds are first made available to finance Mortgage Loans), unless otherwise instructed by the Department in writing, twenty percent (20%) of the lendable funds attributable to the Series 2007A Bonds will 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. Moreover, approximately $15,000,000 of the lendable funds of the Series 2007A Bonds will, for the first twelve months of Program 69, only be used to make GO Zone Mortgage Loans. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 2007 A 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 two 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, as of February 2, 2007, approximately seventy-eight percent (78%) of the fifty percent (50%) set aside for the Rita GO Zone has been reserved and committed by lenders to originate mortgage loans in such targeted areas.

Gulf Opportunity Zone Act of 2005

On December 21, 2005, the President of the United States signed into law the Gulf Opportunity Zone Act of 2005 (the "GO Zone Act"). The purpose of the GO Zone Act, as stated by the Internal Revenue Service, was to provide individual and business tax breaks to help the Gulf Coast recover from a spate of hurricanes in the fall of 2005.

The GO Zone Act directed the referenced tax breaks to certain areas designated as disaster areas by the President of the United States. The "Rita GO Zone", in particular, provides tax breaks to areas of Texas declared disaster areas by the President before October 6, 2005. The Rita GO Zone includes the Texas counties of Chambers, Galveston, Hardin, Jasper, Jefferson, Liberty, Newton, Orange, Tyler, Angelina, Brazoria, Fort Bend, Harris, Montgomery, Nacogdoches, Polk, Sabine, Saint Augustine, San Jacinto, Shelby, Trinity and Walker. For the first twelve months of Program 69 approximately $15,000,000 of the lendable funds of the Series 2007A Bonds will be used only to make GO Zone Mortgage Loans.

The GO Zone Act provides that residences located in the Rita GO Zone are treated as targeted area residences. Thus, the first-time homebuyer rule is waived. Moreover, the income and purchase price rules for targeted area residences apply to residences located in the Rita GO Zone. The provisions of the GO Zone Act apply to residences financed before January 1, 2011.

Very Low Income Reservation

For the first one year period of Program 69 (or such longer period as determined by the Department), the Department is requiring that thirty percent (30%) of the funds made available through the issuance of the Series 2007A Bonds will be set aside for Mortgage Loans for individuals and families of very low income (not exceeding sixty percent (60%) of applicable median family income). See "APPENDIX H - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

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 69, Mortgage Lenders will make available to all first time homebuyers participating in Program 69 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 69. 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", "Very Low Income 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 INCOMES 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 2007 A 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

Countrywide Home Loans, Inc. will act as compliance agent for Program 69 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 Program Agreement, 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 2007A 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 69. 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 and the Series 1993 Transferred Mortgage Loans transferred to the 2004 Series 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 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, one-twelfth of 0.35% of the outstanding principal amount of Freddie Mac Certificates and one-twelfth of 0.405% of the outstanding principal amount of the Fannie Mae Certificates delivered by it. Since the Mortgage Loans will bear interest at a rate which will be 0.50% greater than the rate on the corresponding Ginnie Mae Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on the Mortgage Loans included in a Ginnie Mae Certificate, with the remaining 0.06% paid to Ginnie Mae as its Ginnie Mae guaranty fee. See "APPENDIX C-1 – GINNIE MAE AND THE GINNIE MAE CERTIFICATES." In the case of Mortgage Loans included in a Freddie Mac Certificate, the Master Servicer may deduct its servicing fees directly from amounts received on such Mortgage Loans, with the remaining 0.15% 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 .095% 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 Series 2007A Mortgage Loans under Program 69. Countrywide is currently serving as a Master Servicer for the Series 2002 A/B/C Mortgage Loans, the 2004 A/B Mortgage Loans, the 2004 C/D/E Mortgage Loans, the 2005A Mortgage Loans, the Series 2006 A/B/C/D/E Mortgage Loans and the 2006 F/G/H 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 February 28, 2007, Countrywide participates as Master Servicer for the Department for 5,070 loans which mortgage loans had an aggregate outstanding balance of $559,027,847. 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 February 28, 2007, TSM participates as Master Servicer for the Department for 910 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance in the amount of $49,622,430. 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, the Series 1996A/B/C/D/E Bonds and the Series 1993 Transferred Mortgage Loans transferred to the 2004 Series E Bonds. As of February 28, 2007, CitiMortgage participates as Master Servicer for the Department for 1,090 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance of $54,703,779. 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.

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 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, 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 Fifty-Fourth Supplemental Indenture creates an account for the Series 2007A Bonds within each listed Fund, and a Subaccount for the Series 2007A Bonds within each listed Account except for the Special Mortgage Loan Fund, the Debt Service Reserve Account and the Swap Agreement Periodic Payment Account. Moreover, in connection with the Prior Swap Agreements, the corresponding Supplemental Indentures created a corresponding Swap Agreement Termination Payment Subaccount, Swap Agreement Periodic Receipt Subaccount and Swap Agreement Termination Receipt Subaccount within the Surplus Revenues Account of the Revenue Fund. Those Swap Agreement Termination Payment Subaccounts and the Swap Agreement Termination Receipt Subaccounts are not pledged as security for the payment of principal of or interest on any Bonds. The Accounts and Subaccounts so created do not grant a priority of the Series 2007A Bonds over that of any other series of Bonds.

Mortgage Loan Fund

Certain proceeds of the Series 2007A Bonds will be transferred to the 2007 A Mortgage Loan Account including the 2007 A Special Mortgage Loan Subaccount. 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, the Department and any consultants to the Department.

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 2007 A Mortgage Certificates."

Expense Fund

Amounts in the Expense Fund (except for amounts in the Rebate Accounts 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 Accounts 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 Fifty-Fourth 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 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 the Trust Indenture, 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; 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 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, the Series 2004 C/D/E Bonds, and the Series 2005 D 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 a sufficient amount in all Funds and Accounts 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. SEE "THE TRUST INDENTURE - Application of Proceeds."

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 Fifty-Fourth 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 undismissed 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.

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, in order of maturity, and, if the amount available shall not be sufficient to pay in full any 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

The Bank of New York Trust Company, N.A., a national banking association having a corporate trust office located in Houston, Texas, will continue to serve as the Trustee for the Bonds issued under the Trust Indenture, including the Series 2007A Bonds. The Trustee is required to be removed, with or without cause, 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 owner 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 or Paying Agents 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.

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 Department and the owners of the Bonds, and may be applied only in accordance 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 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, Swap Agreement Periodic Payment 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.

CERTAIN MATTERS REGARDING THE REMARKETING AGENT

This information provided in this section is provided by the Remarketing Agent. No representation is make by the Department or its 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.

The Remarketing Agent is Paid by the Department

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2007A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Department and is paid by the Department for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2007A Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2007A Bonds for its own account and, in its sole discretion, routinely acquires such tendered Series 2007A Bonds in order to achieve a successful remarketing of the Series 2007A Bonds (i.e., because there otherwise are not enough buyers to purchase the Series 2007A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2007A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2007A Bonds by routinely purchasing and selling Series 2007A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2007A Bonds. The Remarketing Agent may also sell any Series 2007A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2007A Bonds. The purchase of Series 2007A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2007A Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2007A Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2007A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Series 2007A Bonds (including whether the Remarketing Agent is willing to purchase Series 2007A Bonds for its own account). There may or may not be Series 2007A Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Series 2007A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2007A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2007A Bonds at the remarketing price. The Remarketing Agent, in its sole discretion, may offer Series 2007A Bonds on any date, including the rate determination date, at a discount to par to some investors.

The Ability to Sell the Series 2007A Bonds other than through Tender Process May Be Limited

The Remarketing Agent may buy and sell Series 2007A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2007A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2007A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2007A Bonds other than by tendering the Series 2007A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2007A Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

TAX MATTERS

Tax Exemption

In the opinion of Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 2007A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. 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 2007A 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 2007A 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 2007A 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 that 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 2007A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), also includes seventy-five (75%) of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income."

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2007A 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 2007A Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Trust Indenture upon the advice or with an approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2007A Bonds.

Prospective purchasers of the Series 2007A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, 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 2007A 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 2007A 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 2007A Bonds could adversely affect the value and liquidity of the Series 2007A Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

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 2007 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.

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 ("Targeted Area Residences"), which consist of: (i) census tracts identified by the United States Treasury Department as having a substantial concentration of lower-income persons, (ii) areas of chronic economic distress designated by the State and approved by HUD, or (iii) Gulf Opportunity Zones created pursuant to the Gulf Opportunity Zone Act of 2005. The Department initially has reserved twenty percent (20%) of the lendable proceeds of the Series 2007A Bonds for Targeted Area Residences and this initial reservation may remain in effect for up to the first twelve months of Program 69.

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, (ii) to loans for financing any residence for a qualified veteran who has not previously received financing as a first-time homebuyer, or (iii) 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.

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 2007A 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 2007A 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 2007A Bonds could become includable in gross income for federal income tax purposes from the date of issuance thereof, regardless of the date on which the event causing such includability occurs.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of June 1, 2007 (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 2007A Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2007A 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 2007A Bonds had such Eligible Borrower been known at the time of the offering of the Series 2007A 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 YEAR ENDED AUGUST 31, 2006" (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 2007. 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 2008 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 2007A 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 2007A 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 2007A 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 (the "MAC") 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. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the Department. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.Disclosure USA.org ("DisclosureUSA"). The Department may utilize DisclosureUSA for the filing of information relating to the Series 2007A Bonds.

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 2007A 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 2007A 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 2007A Bonds in the primary offering of the Series 2007A 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 2007A 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 2007A 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 2007A Bonds in the primary offering of such Series 2007A 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

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings to the Series 2007A Bonds of "Aa1/VMIG 1" and "AAA/A-1+", respectively. The short-term ratings of Moody's and S&P are each based upon the delivery by the Bank of the Liquidity Facility.

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 2007A 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 2007A Bonds.

UNDERWRITING

The Series 2007A Bonds are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters will agree, pursuant to a bond purchase agreement for the Series 2007A Bonds (the "Bond Purchase Agreement"), to purchase all of the Series 2007A Bonds at a total purchase price of par. The Underwriters will receive a fee of $393,886 in connection with their purchase of the Series 2007A 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 Series 2007A Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Series 2007A Bonds offered to the public to certain dealers (including dealers depositing the Series 2007A 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 front cover hereof.

FINANCIAL ADVISOR

RBC Capital Markets (the "Financial Advisor") is employed by the Department as an independent financial advisor in connection with the issuance of the Series 2007A 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. RBC Capital Markets is the name under which RBC Dain Rauscher Inc., a broker-dealer, conducts investment banking business.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs – Revenue Bond Enterprise Fund as of and for the fiscal year ended August 31, 2006 included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

The selected unaudited condensed interim financial information of the Department as of and for the 6-month period ended February 28, 2007 is included in Appendix D-2 to this Official Statement.

THE SERIES 2007A 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 2007A 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 2007A Bonds, or in any way contesting or affecting the validity of the Series 2007A Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 2007A Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 2007A 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 2007A Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 2007A 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 2007A Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 2007A 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 2007A 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, Kevin Hamby, 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, Locke Liddell & Sapp LLP.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2007A Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "THE SERIES 2007A BONDS" (but excluding the information contained therein under the subheading "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the headings "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," and 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 2007A Bonds and the federal tax implications with respect to the Series 2007A 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 2007A 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 2007A Bonds.

TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

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

By: /s/ Michael G. Gerber
Executive Director

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 Fifty-Fourth 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 2007A Bond, the interest on the Series 2007A Bonds as described under the caption "THE SERIES 2007A BONDS – Establishment of an Alternate Rate."

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

"Assisted Mortgage Loans" shall mean 2007 A Mortgage Loans that include down payment and closing cost assistance in an amount initially equal to 5.0% of the principal amount of the Mortgage Loan, subject to adjustment from time to time at the direction of the Department.

"Authorized Denominations," shall mean, (i) with respect to any Long-Term Interest Rate Period, $5,000 and any integral 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 integral multiple of $5,000 in excess of $100,000.

"Bank" shall mean, with respect to the Series 2007A Bonds, initially DEPFA BANK plc, in its capacity as a party to the Liquidity Facility for the Series 2007A Bonds, until a Substitute Liquidity Facility for the Series 2007A Bonds is executed and delivered and is effective in accordance with the Fifty-Fourth Supplemental Indenture, and thereafter "Bank" shall also mean the obligor or obligors under such Substitute Liquidity Facility for the Series 2007A Bonds. Any reference to the Bank shall mean the obligor or obligors under the Liquidity Facility.

"Bank Bond Interest Rate" shall mean, with respect to the Series 2007A Bonds, the "Bank Rate" as defined in the Liquidity Facility or the equivalent rate charged by the Bank in any Substitute Liquidity Facility for the Series 2007A Bonds; provided, however, that the Bank Bond Interest Rate for the Series 2007A Bonds shall not exceed the maximum net effective interest rate permitted by applicable law, as provided by Texas Government Code Section 1204.006, as amended.

"Bank Bonds" shall mean any Series 2007A Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility until such Series 2007A Bonds are remarketed as provided in the Tender Agreement.

"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 Fifty-Fourth Supplemental Indenture.

"Bond Interest Term" shall mean each period established in accordance with the Fifty-Fourth Supplemental Indenture as described under the caption "THE SERIES 2007A BONDS – Interest Rates – Short-Term Interest Rate Period" during which such Series 2007A Bond shall bear interest at a Bond Interest Term Rate.

"Bond Interest Term Rate" shall mean, with respect to each Series 2007A Bond, a non-variable interest rate on such Series 2007A Bond established periodically as described under the caption "THE SERIES 2007A BONDS – Interest Rates – Short-Term Interest Rate Period."

"Bond Purchase Agreement" shall mean the Bond Purchase Agreement providing for the initial purchase of the Series 2007A Bonds by the Underwriters.

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

"Bondholder," "Holder" or "Owner" 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 2007A 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 city in which the payment office of the Paying Agent or the Bank is located 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 the date of delivery of the Series 2007A Bonds to and including February 1, 2009, but which may be extended to a date no later than November 1, 2010, in accordance with the Fifty-Fourth Supplemental Indenture.

"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 2007A 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)(l)(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 2007A Bond, a variable interest rate on the Series 2007A Bonds as described under the caption "THE SERIES 2007A 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 2007A 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, any bond purchase fund 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."

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

"Fannie Mae 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 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 Fifty-Fourth 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 2007A 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.

"Fifty-Fourth Supplemental Indenture" shall mean the Fifty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2007, by and between the Department and The Bank of New York Trust Company, N.A., as trustee, pursuant to which the issuance of the Series 2007A 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.

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

"GO Zone Mortgage Loans" shall mean 2007A Mortgage Loans located in the Rita GO Zone.

"Immediate Liquidity Termination" shall mean a termination of the Liquidity Facility for the Series 2007A Bonds before its expiration date pursuant to provisions in such Liquidity Facility that allow the Bank to terminate its obligation to purchase the Series 2007A 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 2007A BONDS – Interest Rates," (2) with respect to any Long-Term Interest Rate Period, 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, (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 Bank 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-1+ 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);

(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 Trust 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 any credit facility).

"Issuance Date" shall mean the date of initial issuance and delivery of the Series 2007A Bonds to the Underwriters in exchange for payment of the purchase price of such Series 2007A 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 such 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 2007A 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.

"LIBOR" shall have the meaning set forth in the 2000 ISDA (International Swaps and Derivatives Association) Definitions, subject to the condition that the rate shall be for one-month maturities.

"Liquidity Facility" shall mean the Standby Bond Purchase Agreement, dated as of June 1, 2007, by and among the Department, the Tender Agent and the Bank and any Substitute Liquidity Facility for the Series 2007A Bonds and, if the Department has determined to provide its own liquidity support for the Series 2007A Bonds, shall mean the Department.

"Long-Term Interest Rate" shall mean, with respect to each Series 2007A Bond, a non-variable interest rate on such Series 2007A Bond as described under the caption "THE SERIES 2007A 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 2007A Bonds, which shall be a period of at least 181 days.

"Master Indenture" shall mean the Department'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" when used with respect to Program 69, shall mean Countrywide Home Loans, Inc. or any successor thereto as servicer for such Program and when used with respect to another particular Program, shall mean the entity designated as servicer for such Program in the documents for such Program, or any successor thereto.

"Maximum Rate" shall mean the maximum net effective interest rate permitted by applicable law to be charged or collected on the Series 2007A Bonds (other than Bank Bonds), as provided by Texas Government Code Section 1204.006, as amended, but in no event greater than 12% 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 Mortgage Certificate and a participation in a Mortgage Loan.

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

"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.

"1987 Series B Mortgage Loans" shall mean the Mortgage Loans originally financed from the Department's Single Family Mortgage Revenue Bonds, 1987 Series B.

"1987 Series B Transferred Mortgage Loans" shall mean approximately 30.38% of each 1987 Series B Mortgage Loan which shall be allocated to the 2007 Series A Bonds.

"1997 Series A Bonds" shall mean the Department's Single Family Mortgage Revenue Bonds, 1997 Series A.

"1997 Series A Mortgage Certificates" shall mean those Mortgage Certificates which are owned by the Department and which were acquired with the proceeds of the 1997 Series A Bonds.

"1997 Series A Transferred Mortgage Certificates" shall mean 100% of the Mortgage Certificates acquired with proceeds of the 1997 Series A Bonds which shall be allocated to the Series 2007A Bonds.

"1997 Series D Bonds" shall mean Department's Single Family Mortgage Revenue Bonds, 1997 Series D.

"1997 Series D Mortgage Certificates" shall mean those Mortgage Certificates which are owned by the Department and which were acquired with the proceeds of the 1997 Series D Bonds.

"1997 Series D Transferred Mortgage Certificates" shall mean approximately 47.54% of each Mortgage Certificate acquired with proceeds of the 1997 Series D Bonds which shall be allocated to the Series 2007 A Bonds.

"Non-Assisted Mortgage Loans" shall mean the 2007 A Mortgage Loans other than Assisted Mortgage Loans.

"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, 5.49% with respect to 2007 A Mortgage Certificates representing Assisted Mortgage Loans that are Statewide Mortgage Loans, 4.75% with respect to 2007 A Mortgage Certificates representing Non-Assisted Mortgage Loans that are Statewide Mortgage Loans, and 5.49% with respect to 2007 A Mortgage Certificates representing Assisted Mortgage Loans that are GO Zone Mortgage Loans, each subject to adjustment upon written notice from the Department.

"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 Accounts" shall mean the Policy Payments Accounts held by the Trustee into which payments from claims on the bond insurance policies will be deposited until disbursed.

"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 Fifty-Fourth Supplemental Indenture, as such address may be changed from time to time.

"Prior Swap Agreements" shall mean the interest rate swap agreements previously entered by the Department with a Swap Provider, as set forth under the caption "SWAP AGREEMENTS" herein, pursuant to which the Department and the respective Swap Provider agreed to make payments thereunder with respect to a notional amount corresponding to the outstanding principal amount of the corresponding bonds for the purpose of effectively converting the interest rate on such bond to a fixed interest rate.

"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. 69, as set forth and implemented through the Program Agreement.

"Program Agreement" shall mean the Mortgage Origination Agreement, the Compliance Agreement relating to Bond Program No. 69, dated as of June 1, 2007, by and between the Department and Countrywide Home Loans, Inc., together with any amendments thereto, the Servicing Agreement and the Program Guidelines for the Department's Bond Program No. 69, containing information relating to specific provisions of Program No. 69.

"Program Guidelines" shall mean the Program Guidelines for Texas Department of Housing and Community Affairs Bond Program No. 69 containing information relating to specific provisions of the Program.

"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 Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto; and (ii) Moody's Investors Service Inc., and any successor thereto to the extent either agency then has a rating on the Bonds in effect at the request of the Department.

"Rebate Accounts" shall mean the Rebate Accounts held by the Trustee into which rebate payments from claims on bond insurance policies will be deposited until disbursed.

"Rebate Amount" shall mean, with respect to the Series 2007A 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 2007A 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, collectively, all of the Outstanding 1997 Series A Bonds and all of the Outstanding 1997 Series D Bonds.

"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 Bear, Stearns & Co. Inc. as initial Remarketing Agent appointed for the Series 2007A Bonds and any successor remarketing agent for the Series 2007A Bonds appointed in accordance with the Fifty-Fourth 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 2007 A Mortgage Certificates, including any payments 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 2007 A Mortgage Certificates and all other net proceeds of such 2007 A 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.

"Rita GO Zone" includes the following Texas counties: Angelina, Brazoria, Chambers, Fort Bend, Galveston, Hardin, Harris, Jasper, Jefferson, Liberty, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, Tyler and Walker.

"Series 2007A Bonds" shall mean the Department's Single Family Variable Rate Mortgage Revenue Bonds, 2007 Series A, to be issued under the Trust Indenture and the Fifty-Fourth Supplemental Indenture.

"Servicing Agreement" shall mean the Program Administration and Servicing Agreement for the Department's Bond Program No. 69, dated as of June 1, 2007, 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 2007A Bonds.

"SIFMA Swap Index Rate" shall mean The Securities Industry and Financial Markets 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 Securities Industry and Financial Markets Association (or any successor index produced by or on behalf of The Securities Industry and Financial Markets Association). Any change in the SIFMA Swap Index Rate shall become effective as of the date the change is announced by The Securities Industry and Financial Markets Association. If The Securities Industry and Financial Markets Association does not publish The Securities Industry and Financial Markets Association Municipal Swap Index, then "SIFMA Swap Index Rate" shall be the alternative interest rate index designated by the Department to the Trustee.

"State" shall mean the State of Texas.

"Statewide Mortgage Loans" shall mean 2007 Series A Mortgage Loans that are not GO Zone Mortgage Loans.

"Substitute Liquidity Facility" shall mean, with respect to the Series 2007A Bonds, a liquidity facility for such Series 2007A Bonds meeting the requirements set forth in the Fifty-Fourth 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 2007A Bonds pursuant to Fifty-Fourth 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.

"Surplus Revenues Account" shall mean the Surplus Revenues Account of the Revenue Fund held by the Trustee into which Surplus Indenture Revenues are held until disbursed.

"Swap Agreement" shall mean any interest rate swap agreement entered into by the Department with a 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 one or more series of variable rate Bonds for the purpose of effectively converting the interest rate on such Bonds to a fixed interest rate.

"Swap Agreements" shall mean collectively, the Swap Agreement and the Prior Swap Agreements.

"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 or the Trustee 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 any of the Swap Agreements in connection with the termination of the respective Swap Agreements, whether voluntary or upon the occurrence of an even of default or similar event thereunder.

"Swap Agreement Termination Payment Subaccounts" shall mean the Swap Agreement Termination Payment Subaccounts held by the Trustee into which Swap Termination Payments are held until disbursed.

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

"Swap Agreement Termination Receipt Payment Subaccounts" shall mean the Swap Agreement Termination Receipt Subaccounts held by the Trustee into which Termination Receipt Payments are held until disbursed.

"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.

"Tender Agent" shall mean The Bank of New York Trust Company, N.A., as the initial Tender Agent appointed for the Series 2007A Bonds and any successor tender agent for the Series 2007A Bonds appointed in accordance with the Fifty-Fourth Supplemental Indenture.

"Tender Agreement" shall mean the Tender Agent Agreement, dated as of June 1, 2007, among the Department, the Remarketing Agent and the initial Tender Agent, as such tender agent agreement may be amended or supplemented from time to time, and includes any tender agent agreement entered into between the Department and a successor Tender Agent for the Series 2007A Bonds.

"Trust Indenture" shall mean, collectively, 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 Nineteenth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1995, the Twentieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1995, the Twenty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of September 1, 1996, the Twenty-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 Mortgage Revenue Bond Trust Indenture, dated as of August 1, 1997, the Twenty-Ninth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirtieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1997, the Thirty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2002, the Thirty-Fifth Supplemental Single Family Mortgage 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, the Thirty-Seventh Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of April 1, 2004, the Thirty-Eighth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, the Thirty-Ninth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, the Fortieth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, the Forty-First Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2004, the Forty-Second Supplemental Single Family Mortgage Revenue

Bond Trust Indenture, dated as of April 1, 2005, the Forty-Third Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of December 1, 2005, the Forty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of December 1, 2005, the Forty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of December 1, 2005, and as hereafter amended and supplemented, each between the Department and the Trustee.

"2007 A Capitalized Interest Subaccount" shall mean the 2007 A Capitalized Interest Subaccount within the 2007 A Revenue Account.

"2007 A 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 2007 A Mortgage Loan Account and pledged by the Department to the Trustee pursuant to the Trust Indenture and the Fifty-Fourth Supplemental Indenture.

"2007 A Mortgage Loan Account " shall mean the 2007 A Account of the Mortgage Loan Fund.

"2007 A Mortgage Loans" shall mean the loans included in each Mortgage Pool represented by a 2007 A Mortgage Certificate.

"2007 A Principal Subaccount" shall mean the 2007 A Subaccount of the Principal Account of the Debt Service Fund.

"2007 A Redemption Subaccount" shall mean the 2007 A Subaccount of the Redemption Account of the Debt Service Fund.

"2007 A Revenue Account" shall mean the 2007 A Account of the Revenue Fund.

"Underwriters" shall mean Bear, Stearns & Co. Inc. 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 2007A Bond, a variable interest rate on the Series 2007A Bonds as described under the caption "THE SERIES 2007A 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 2007A Bonds.

"Yield" shall mean, with respect to the Series 2007A 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.

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APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS

AND TEXAS FORECLOSURE LAWS

Introduction

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

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

FHA Insurance Programs

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

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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.

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 15th day of each month or, if the 15th is not a business day, the next business day.

Freddie Mac receives monthly mortgage payments from it mortgage servicers during a Monthly Reporting Period that begins on the 16th of a month and ends on the 15th 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 5th 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.

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.

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APPENDIX D-1

AUDITED FINANCIAL STATEMENTS

OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FOR THE FISCAL YEAR ENDED

AUGUST 31, 2006

[Report of Independent Auditors]

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Texas Department of Housing and Community Affairs—Revenue Bond Program

Financial Statements as of and for the Year Ended August 31, 2006, and Independent Auditors' Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—REVENUE BOND PROGRAM

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INDEPENDENT AUDITORS' REPORT

To 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 "Bond Program") as of August 31, 2006, 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 8 (supplementary information on pages 42 to 64). These financial statements and supplementary schedules 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. 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 presentation of the financial statements. 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, 2006, 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 8 (supplementary information on pages 42 to 64) 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 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 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 audit of the basic financial statements and, in our opinion, are fairly presented in all material respects when considered in relation to the financial statements taken as a whole.

Deloitte & Touche LLP

December 19, 2006

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – REVENUE BOND PROGRAM MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED AUGUST 31, 2006

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, 2006. Please read it in conjunction with the Department's Bond Program financial statements, which follow this section.

Financial Highlights

- The Bond Program's net assets decreased by $36 million. This was primarily as a result of the change in fair value of investments as explained below.
- The Bond Program had a decrease in Operating Income of $17.3 million to $39.4 million. The change in operating income was a result of different factors. The change in fair value of investments decreased from a loss of $13.5 million in fiscal year 2005 to a loss of $33.4 in fiscal year 2006, or $19.9 million, which accounted for the majority of the decrease in operating income. Although interest and investment income increased by $13.7 million, it was offset by an increase in bond interest expense of $9.4 million and an increase in other operating expense of $0.9 million.
- The Bond Program's debt outstanding of $2.3 billion as of August 31, 2006, increased $160.6 million. Debt issuances and debt retirements totaled $503.9 million and $349.1 million, respectively.
- Loan originations for the year totaled $161.9 million in the Bond Program.
- The Department entered into three interest rate swap agreements with three different counterparties for a combined notional amount of $188.0 million and a fair value of ($2 million) as of August 31, 2006.

Financial Statements

The financial statements provide information about the Bond Program's funds. The Bond Program has only one type of fund, the proprietary fund, which is as follows:

- ***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

	Bond Program		Increase (Decrease)	
	2006	2005	Amount	Percentage
ASSETS:				
Cash and investments	$ 1,394,915,573	$ 1,404,188,895	$ (9,273,322)	(0.66)%
Loans, contracts, and notes receivable	1,158,656,080	1,089,417,592	69,238,488	6.36 %
Interest receivable	18,621,101	12,401,510	6,219,591	50.15 %
Capital assets	136,636	159,613	(22,977)	(14.40)%
Real estate owned	243,166	57,427	185,739	323.43 %
Deferred issuance cost	11,292,615	11,469,566	(176,951)	(1.54)%
Other assets	526,791	1,184,567	(657,776)	(55.53)%
Total assets	2,584,391,962	2,518,879,170	65,512,792	2.60 %
LIABILITIES:				
Bonds/notes payable	2,328,148,557	2,167,498,974	160,649,583	7.41 %
Interest payable	32,977,121	27,172,715	5,804,406	21.36 %
Deferred revenue	2,784,444	2,950,225	(165,781)	(5.62)%
Other liabilities	180,217,279	244,615,793	(64,398,514)	(26.33)%
Total liabilities	2,544,127,401	2,442,237,707	101,889,694	4.17 %
NET ASSETS:				
Invested in capital assets	136,636	154,401	(17,765)	(11.51)%
Restricted	23,720,346	61,632,463	(37,912,117)	(61.51)%
Unrestricted	16,407,579	14,854,599	1,552,980	10.45 %
Total net assets	$ 40,264,561	$ 76,641,463	$ (36,376,902)	(47.46)%

Net assets of the Bond Program decreased $36.4 million, or 47.46%, to $40.3 million. The net decrease primarily resulted from a decrease in fair value of the Bond Program's investments and an increase in expenses particularly interest expense. Restricted net assets of the Bond Program decreased $37.9 million, or 61.51%. Unrestricted net assets increased $1.6 million, or 10.45%.

Cash and investments decreased $9.3 million, or 0.66%, to $1.4 billion, since funds were used for debt service, funding of loans, and multi-family construction draws. The Bond Program loans receivable (current and non-current) increased $69.2 million, or 6.36%, to $1.2 billion, due primarily to $111.1 million worth of mortgage loans originated and $36.7 million paid down under the Multi-Family Program. Total bonds and notes payable (current and non-current) increased $160.6 million, or 7.4%, due to new debt issuances associated with the Bond Program's Single Family and Multi-Family Programs.

A comparison between 2006 and 2005 for the Statement of Revenues, Expenses, and Changes in Net Assets is as follows:

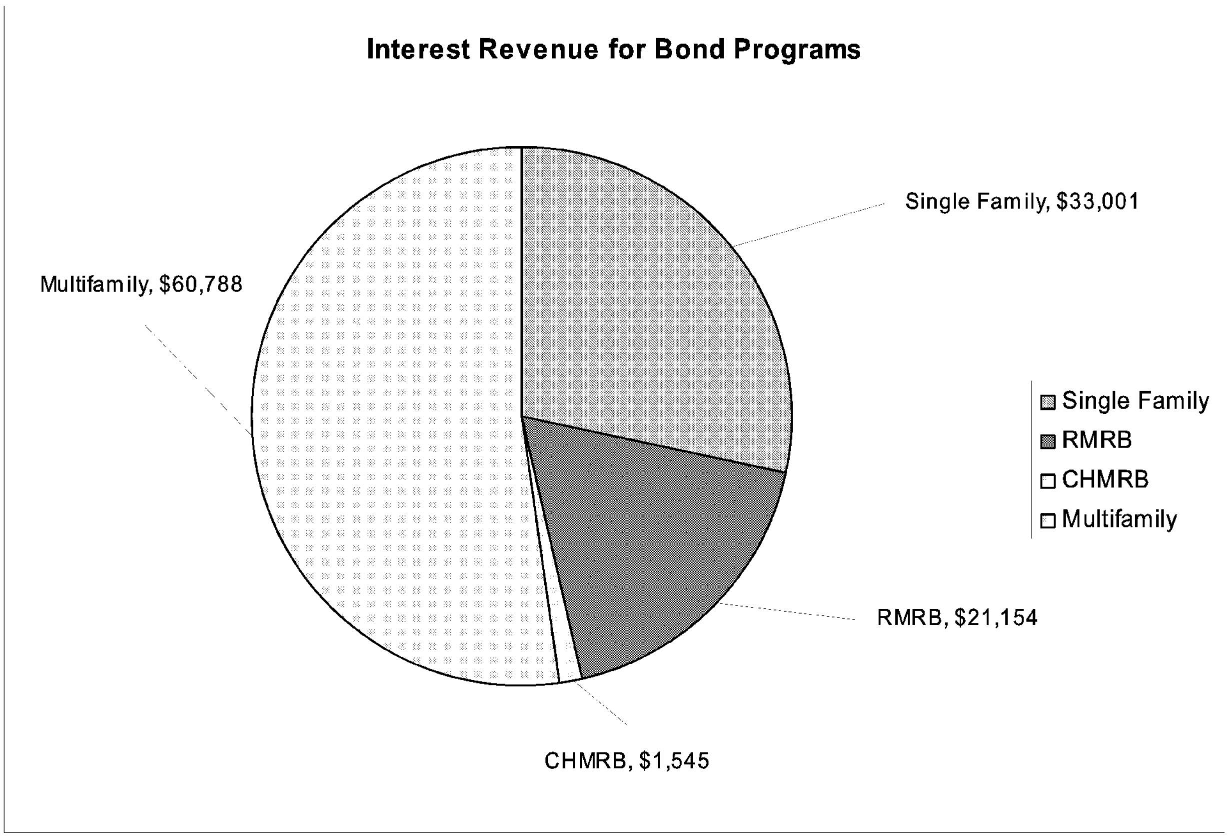
Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005	Increase (Decrease) Amount	Increase (Decrease) Percentage
OPERATING REVENUES:				
Interest and investment income	$120,279,128	$106,544,886	$ 13,734,242	12.89 %
Net (decrease) in fair value	(33,415,610)	(13,498,876)	(19,916,734)	147.54 %
Other operating revenues	3,663,929	4,311,029	(647,100)	(15.01)%
Total operating revenues	90,527,447	97,357,039	(6,829,592)	(7.01)%
OPERATING EXPENSES:				
Salaries and wages	3,232,945	3,103,499	129,446	4.17 %
Payroll-related costs	1,422,995	1,492,744	(69,749)	(4.67)%
Professional fees and services	897,513	822,771	74,742	9.08 %
Travel	93,034	111,431	(18,397)	(16.51)%
Materials and supplies	105,221	159,403	(54,182)	(33.99)%
Communications and utilities	70,220	71,014	(794)	(1.12)%
Repairs and maintenance	90,150	109,661	(19,511)	(17.79)%
Rentals and leases	198,680	499,963	(301,283)	(60.26)%
Printing and reproduction	26,235	12,707	13,528	106.46 %
Depreciation expense	1,084,636	639,703	444,933	69.55 %
Interest	117,489,650	108,097,933	9,391,717	8.69 %
Other operating expenses	5,186,845	4,313,440	873,405	20.25 %
Total operating expenses	129,898,124	119,434,269	10,463,855	8.76 %
OPERATING (LOSS)	(39,370,677)	(22,077,230)	(17,293,447)	78.33 %
NONOPERATING REVENUES (EXPENSES) AND EXTRAORDINARY ITEMS	2,993,775	2,061,520	932,255	45.22 %
CHANGE IN NET ASSETS	(36,376,902)	(20,015,710)	(16,361,192)	81.74 %
BEGINNING NET ASSETS	76,641,463	96,660,446	(20,018,983)	(20.71)%
RESTATEMENTS		(3,273)	3,273	(100.00)%
BEGINNING NET ASSETS—As restated	76,641,463	96,657,173	(20,015,710)	(20.71)%
ENDING NET ASSETS	$ 40,264,561	$ 76,641,463	$(36,376,902)	(47.46)%

Net assets of the Bond Program decreased from the August 31, 2005 amount by $36.4 million, or 47%, to $40.3 million.

Earnings within the Bond Program's various bond indentures were $90.5 million, of which $87.3 million is classified as restricted and $3.2 million, as unrestricted. Restricted earnings are composed of $119.6 million in interest and investment income, ($33.4) million decrease in fair value of investments, and $1.1 million 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 $0.6 million in interest and investment income and $2.5 million 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 $120.3 million and a decrease in fair value of investments of ($33.4) million. 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 $6.8 million, which consisted primarily of the decrease in fair value of investments from a loss of ($13.5 million) in fiscal year 2005 to a loss of ($33.4) million in fiscal year 2006.

Interest earned on program loans increased by $9.6 million, or 17.7%, due primarily to an increase of $9.6 million, or 18.8%, within the Bond Program's Multi-Family Program, due to higher loan amounts outstanding.

Investment income increased $4.2 million, or 8.0%, and reflected higher investment yields. The primary changes in investment income were within the Single Family Bond Program funds, which increased $5.9 million, or 24.3%, and the Residential Mortgage Revenue Bond Program funds, which decreased $2.5 million, or 10.6%.

Expenses of the Bond Program consist primarily of interest expense of $117 million, which increased $9.4 million, or 8.7%, on the Bond Program's debt incurred to fund its various lending programs.

The Bond Program also generated $0.5 million of unrestricted investment income, which was used primarily to partially offset its administrative costs.

The changes in net assets by bond indenture for the Bond Program for fiscal years 2006 and 2005 are as follows:

Changes in Net Assets by Fund Groups, Year Ended August 31,
(Amounts in thousands)

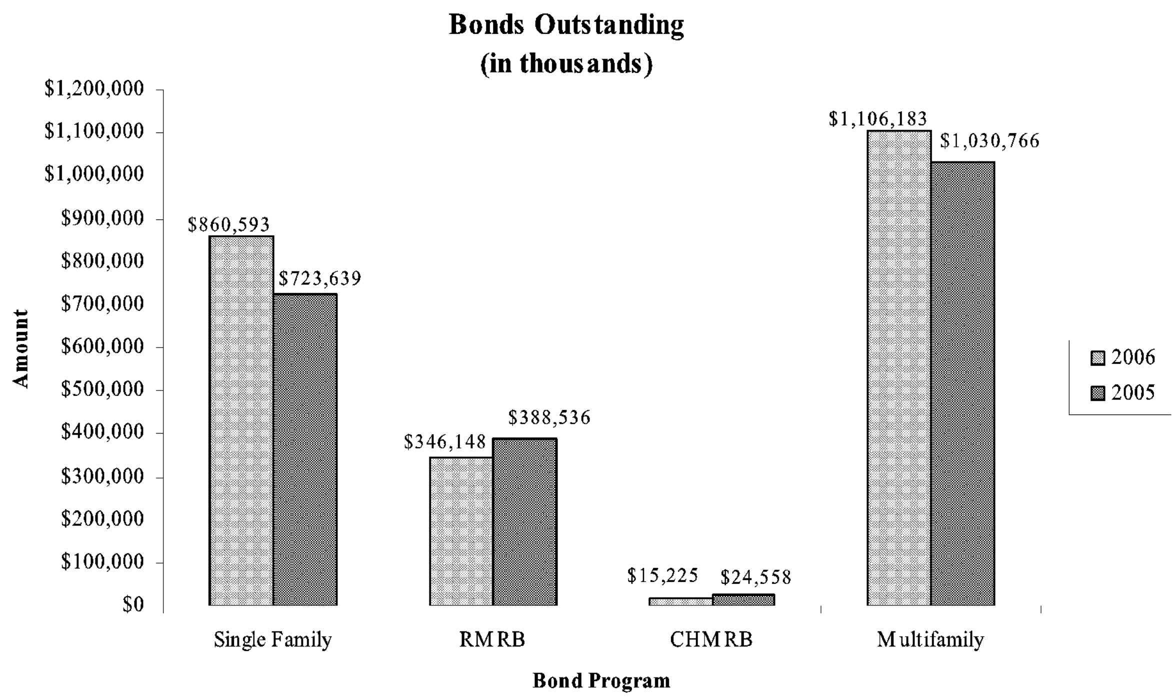
			Increase (Decrease)	
Fund	**2006**	**2005**	**Amount**	**Percentage**
Single Family	$17,209	$43,055	$ (25,846)	(60.0)%
RMRB	5,352	15,498	(10,146)	(65.5)%
CHMRB	1,355	1,716	(361)	(21.0)%
Multifamily	(206)	411	(617)	(150.1)%
1993 SF CHMRB	10	757	(747)	(98.7)%
1994/1995 SF CHMRB		190	(190)	(100.0)%
Commercial paper	1	6	(5)	(83.3)%
General funds	16,544	15,009	1,535	10.2 %
Total	$40,265	$76,642	$ (36,377)	(47.5)%

Net assets of the Single Family Bond Programs decreased by $25.8 million, or 60%, primarily due to a decrease of $22 million to the fair value of investments and an increase in interest expense of $2 million. In the same manner, the net assets of the Residential Mortgage Revenue Bonds decreased by $10.1 million due to a decrease of $10.8 million to the fair value of investments and a decrease in interest expense of $3.2 million.

Bond Program Debt

The Bond Program's new debt issuances during fiscal year 2006 totaled $503.9 million. The Single Family Program issued $392.8 million in bonds, and the Multi-Family Bond Program issued $111.1 million. The Bond Program also had $349.1 million 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 $160.6 million to $2.3 billion of which $33.8 million is due within one year. For additional information, see Note 8, Bonds Payable, and supplementary bond information schedules.

The following graph will illustrate a comparison of bonds outstanding between fiscal year 2006 and 2005 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, P.O. Box 13941, Austin, Texas, 78711-3941.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—
REVENUE BOND PROGRAM

STATEMENT OF NET ASSETS
AS OF AUGUST 31, 2006

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents:	
Cash on hand	$ 200
Cash in bank	159,330
Cash in state treasury	757,860
Cash equivalents	12,219,705
Restricted assets:	
Cash and cash equivalents:	
Cash in bank	1,536,516
Cash equivalents	123,625,865
Short-term investments	83,338,532
Loans and contracts	10,583,907
Interest receivable	18,621,101
Consumable inventories	14,787
Other current assets	512,004
Total current assets	251,369,807
NONCURRENT ASSETS:	
Capital assets	
Depreciable:	
Furniture and equipment	1,302,873
Less accumulated depreciation	(1,166,237)
Restricted assets:	
Investments	1,173,277,565
Loans and contracts	1,148,072,173
Other noncurrent assets:	
Deferred bond issuance cost—net	11,292,615
Real estate owned—net	243,166
Total noncurrent assets	2,333,022,155
TOTAL ASSETS	$ 2,584,391,962

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—REVENUE BOND PROGRAM

STATEMENT OF NET ASSETS AS OF AUGUST 31, 2006

LIABILITIES

CURRENT LIABILITIES:	
Payables:	
Accounts payable	$ 370,250
Accrued bond interest payable	32,977,121
Payable to General Fund	35,884
Deferred revenues	2,784,444
Employees' compensable leave	255,237
Revenue bonds payable	33,840,000
Other current liabilities	7,662,302
Total current liabilities	77,925,238
NONCURRENT LIABILITIES:	
Employees' compensable leave	63,030
Revenue bonds payable	2,294,308,557
Other noncurrent liabilities	171,830,576
Total noncurrent liabilities	2,466,202,163
TOTAL LIABILITIES	$ 2,544,127,401
NET ASSETS:	
Invested in capital assets	$ 136,636
Restricted	23,720,346
Unrestricted	16,407,579
TOTAL NET ASSETS	$ 40,264,561

See notes to financial statements. (Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED AUGUST 31, 2006

OPERATING REVENUES:	
Interest and investment income	$ 120,279,128
Net decrease in fair value of investments	(33,415,610)
Other operating revenues	3,663,929
Total operating revenues	90,527,447
OPERATING EXPENSES:	
Salaries and wages	3,232,945
Payroll-related costs	1,422,995
Professional fees and services	897,513
Travel	93,034
Materials and supplies	105,221
Communications and utilities	70,220
Repairs and maintenance	90,150
Rentals and leases	198,680
Printing and reproduction	26,235
Depreciation and amortization	1,084,636
Interest	117,489,650
Other operating expenses	5,186,845
Total operating expenses	129,898,124
OPERATING (LOSS)	(39,370,677)
NONOPERATING REVENUES AND EXPENSES—	
Gain on sale of investments	16,316
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS:	
Extraordinary items (loss on early extinguishment of debt)	
Transfers from General Fund	2,977,459
Total other revenues, expenses, gains, losses, and transfers	2,977,459
CHANGE IN NET ASSETS	(36,376,902)
NET ASSETS—September 1, 2005	76,641,463
RESTATEMENT	
NET ASSETS—September 1, 2005, as restated	76,641,463
NET ASSETS—August 31, 2006	$ 40,264,561

See notes to financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—REVENUE BOND PROGRAM

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Proceeds from loan programs	$ 83,835,993
Proceeds from other revenues	3,057,234
Payments to suppliers for goods/services	(7,895,855)
Payments to employees	(4,739,587)
Payments for loans provided	(161,940,310)
Net cash used in operating activities	(87,682,525)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from debt issuance	511,167,100
Proceeds from other costs of debt	(2,610,339)
Transfers to General Fund	2,977,460
Payments to General Fund	(39,265)
Payments of principal on debt	(349,137,525)
Payments of interest	(109,137,692)
Net cash provided by noncapital financing activities	53,219,739
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—Payments for additions to capital assets	(75,179)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	988,986,318
Proceeds from interest and investment income	61,644,787
Payments to acquire investments	(1,042,106,166)
Net cash provided by investing activities	8,524,939
DECREASE IN CASH AND CASH EQUIVALENTS	(26,013,026)
CASH AND CASH EQUIVALENTS—Beginning of year	164,312,302
CASH AND CASH EQUIVALENTS—End of year	$ 138,299,276

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2006

RECONCILIATION OF CASH FROM OPERATING ACTIVITIES TO OPERATING LOSS:	
Operating loss	$ (39,370,677)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Amortization and depreciation	1,084,636
Provision for estimated losses	12,364
Operating income and cash flow categories—classification differences	84,645,347
Changes in assets and liabilities:	
Increase in accrued interest receivable	(6,219,591)
Increase in loans	(69,738,490)
Increase in property owned	(185,739)
Decrease in mortgage loan acquisition costs	176,951
Decrease in deferred revenues	(165,781)
Decrease in other assets and liabilities	(63,725,951)
Increase in accrued interest payable	5,804,406
NET CASH USED IN OPERATING ACTIVITIES	$ (87,682,525)
NONCASH TRANSACTIONS—	
Net Change in Fair Value of Investments	$ (33,415,610)

During 2006, loans totaling $689,311 were foreclosed and the related properties acquired were transferred to real estate owned.

See notes to financial statements. (Concluded)

1. GENERAL STATEMENT AND SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements represent the financial status of the Revenue Bond 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 10 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 Program 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, 2006, 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 3).

   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 (decrease) 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. *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.

e. *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.

f. *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.

g. *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.

h. *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.

i. *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.

j. *Restricted Net Assets*—The net assets of the Program are restricted for various purposes of the bond trust indentures.

k. *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. CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2006, is presented below:

Program Activities	Balance September 1, 2005	Additions	Deletions	Balance August 31, 2006
Depreciable assets:				
Furniture and equipment	$ 1,236,446	$ 12,225	$ (8,752)	$ 1,239,919
Other capital assets		62,954		62,954
Less accumulated depreciation:				
Furniture and equipment	(1,082,045)	(82,708)	8,752	(1,156,001)
Other capital assets		(10,236)		(10,236)
Depreciable assets—net	$ 154,401	$ (17,765)	$ -	$ 136,636

3. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND MORTGAGE-BACKED SECURITIES

The Department is authorized by statute to make investments following the "prudent person rule" and based upon provisions within the master bond indentures and its Investment Policy adopted by the Board in accordance with the Public Funds Investment Act. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank—As of August 31, 2006, the carrying amount of deposits was $1,696 (in thousands).

Program funds—current assets—cash in bank:	
Texas Treasury Safekeeping Trust (TTSTC)	$ 159
Demand deposits	
Program funds—current assets—restricted cash in bank:	
Texas Treasury Safekeeping Trust	203
Demand deposits	1,334
Cash in bank	$ 1,696

At August 31, 2006, the Program's cash and deposits in the State Treasury amounted to $757,860. Of that amount, $757,860 was fully collateralized by securities held with a trustee in the State's name, as reported to the Department by the Comptroller of Public Accounts of the State of Texas.

Investments—The types of investments in which the Department may invest are restricted by the provisions of the master bond indentures and the Department's Investment Policy adopted by its Board in accordance with the Public Funds Investment Act. The indentures 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.

At August 31, 2006, the fair values of investments as of the balance sheet date (including both short term and long term) are shown below (in thousands).

Program Activities	**Carrying Value**	**Fair Value**
U.S. government Treasury securities	$ 25,921	$ 26,129
U.S. government agency obligations	910,428	887,365
Repurchase agreements (TTSTC)	79,322	79,322
Fixed income money markets	57,845	57,845
Miscellaneous (investment agreements/GICs)	341,801	341,801
Total	$ 1,415,317	$ 1,392,462

Credit Risk—Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Preservation and safety of principal is the foremost objective of the investment program. According to the Department's investment policy, investments should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is mitigated by:

- Limiting investments to the safest types of securities.
- Prequalifying the financial institution, broker/dealers, intermediaries, and advisors with which the Department will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

As of August 31, 2006, the Program's credit quality distribution for securities with credit risk exposure was as follows (in thousands):

Standard & Poor's

Investment Type	**Not Rated**	**AAA**	**Aa**	**A**
U.S. government agency obligations	$ -	$ 73,173	$ -	$ -
Repurchase agreements (TTSTC)	79,322			
Miscellaneous (investment agreements/GICs)	341,801			
	Not Rated	**AAA-M**	**AA-M**	**A-M**
Fixed income money markets	$ -	$ 57,845	$ -	$ -

A total of $840,320,987 was not subject to credit risk disclosure due to their explicit guarantee by the U.S. government which is composed of $26,128,517 in U.S. Treasury securities and $814,192,470 in U.S. government agency obligations issued by the Government National Mortgage Association.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2006, the Department's concentration of credit risk is as follows (in thousands).

Issuer	**Carrying Value**	**% of Total Portfolio**
DEPFA Bank	$ 235,705	16.65 %
USB Warbus	79,289	5.60

Interest Rate Risk—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of any investment. Longer maturity of an investment will result in greater sensitivity of its fair value to changes in the market interest rates. The Department's investment policy allows for the mitigation of interest rate risk by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

Information about the sensitivity of the fair values of the Program's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Program's investments by maturity (in thousands):

Program Activities	Fair Value	12 months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury securities	$ 26,129	$ 24,983	$ -	$ -	$ 1,146
U.S. government agency obligations	887,365	10,336			877,029
Repurchase agreements (TTSTC)	79,322	79,322			
Fixed income money markets	57,845	57,845			
Miscellaneous (investment agreements/GICs)	341,801	55,031	257,353	154	29,263
Total	$ 1,392,462	$ 227,517	$ 257,353	$ 154	$ 907,438

Highly Sensitive Investments—Mortgage-backed securities: These securities are subject to early payment in a period of declining interest rates. These prepayments result in a reduction of expected total cash flows affecting the fair value of these securities and make the fair value of these securities highly sensitive to the changes in interest rates. The Department does not make it a common practice to sell these investments. Any fluctuation in fair value generates an unrealized gain or loss which would be recorded in the financial statements. As of August 31, 2006, the Department holds $887,365,111 in mortgage-backed securities.

4. SUMMARY OF LONG-TERM LIABILITIES

Employees' Compensable Leave—A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. An expense and liability is recorded as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Other Noncurrent Liabilities—Other noncurrent liabilities totaling $171,830,576 primarily account for funds due to developers as a result of Multifamily bond proceeds. These proceeds are conduit debt issued on behalf of the developer for the purpose of Multifamily developments and are held by the trustee. Due to the variables related to the balance, the current portion cannot be reasonably estimated.

5. RESTRICTED ASSETS

Cash in bank, cash equivalents, short-term investments, loans and contracts, interest receivable, and investments (which include mortgage-backed securities) totaling $2.6 billion 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, at August 31, 2006, are as follows (in thousands):

Program	Mortgage and Debt Service Reserve	Unspent Bond Proceeds	Revenue Account	Self-Insurance	Rebate Account
Single-family	$ 1,237	$ 262,461	$ 34,136	$ 1,515	$ 439
RMRB		375	11,929	401	262
CHMRB			772		
Multifamily	1,273	101,663	22,772		
93 SF CHMRB					8
Commercial paper					407
Total	$ 2,510	$ 364,499	$ 69,609	$ 1,916	$ 1,116

Additionally, deferred issuance costs and real estate owned totaling $11.3 million and $243,000, respectively, are also restricted.

6. LOANS RECEIVABLE

Loans receivable as of August 31, 2006, consisted of the following (in thousands):

Single-family loans	$ 51,382
Multifamily loans	1,106,506
RMRB (1987 Series A) single-family loans	1,534
Miscellaneous loans	3,506
Total loans	1,162,928
Deferred commitment fees, net of accumulated amortization of $39,114 in 2006	(1,283)
Allowance for estimated loan losses	(2,989)
Total	$ 1,158,656

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, 2006.

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—beginning of year	$ 3,345
Provision for estimated losses on loans	(356)
Balance—end of year	$ 2,989

7. REAL ESTATE OWNED

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

Real estate owned	$ 1,394
Allowance for estimated losses	(1,151)
Real estate owned—net	$ 243

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

Balance at beginning of year	$ (495)
Amounts charged off	(561)
Provision for losses on real estate owned	(95)
Balance at end of year	$ (1,151)

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.

8. BONDS PAYABLE

Bonds payable activity for the year ended August 31, 2006, consisted of the following (in thousands):

	Original Face Amount	Balance September 1, 2005	Additions/ Accretions	Maturities/ Prepayments	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
Single-family:							
1995 Series A—4.15% to 6.15%	$ 85,760	$ 29,750	$ -	$ 29,750	$ -	2027	$ -
1995 Series C—6.44% to 7.76%	71,760	12,915		12,915		2017	
1996 Series A—4.5% to 6.3%	15,000	8,875		8,875		2028	
1996 Series D—5.45% to 6.25%	70,760	28,775		28,775		2028	
1996 Series E—3.9% to 6%	98,730	21,915		21,915		2017	
1997 Series A—5.25% to 5.80%	44,465	30,175			30,175	2029	
1997 Series B—5.45%	9,510	7,330		6,590	740	2019	
1997 Series D—5.65% to 5.70%	44,795	18,055		3,350	14,705	2029	
1997 Series F—6.77%	20,000	5,625		5,625		2029	
2002 Series A—7.01%	10,000	9,945		860	9,085	2026	
2002 Series A—5.45% to 5.55%	38,750	37,570		85	37,485	2034	
2002 Series B—5.35% to 5.55%	52,695	47,760		4,005	43,755	2033	
2002 Series C—2.80% to 5.20%	12,950	12,120		470	11,650	2017	470
2002 Series D—2.0% to 4.5%	13,605	8,270		1,325	6,945	2012	895
2004 Series A—2.0% to 4.7%	123,610	123,485		770	122,715	2035	1,635
2004 Series B—variable rate	53,000	53,000			53,000	2034	
2004 Series A—variable rate	4,140	4,140			4,140	2036	
2004 Series C—4.3% to 4.8%	41,245	41,245		2,375	38,870	2036	280
2004 Series D—variable rate	35,000	35,000			35,000	2035	
2004 Series E—2.45% to 4.3%	10,825	10,825		320	10,505	2013	1,310
2005 Series A—variable rate	100,000	100,000		30	99,970	2036	885
2005 Series B—4.38%	25,495		25,495	965	24,530	2026	375
2005 Series C—4.31% to 5.39%	8,970		8,970	310	8,660	2017	
2005 Series D—5.0%	3,730		3,730	245	3,485	2035	
2006 Series A—5.0%	59,555		59,555		59,555	2037	
2006 Series B—5.0%	70,485		70,485		70,485	2034	
2006 Series C—5.13%	105,410		105,410		105,410	2037	
2006 Series D—4.50%	29,685		29,685		29,685	2028	
2006 Series E—4.06%	17,295		17,295		17,295	2,017	
2006 Commercial Paper Series A—3.63%	75,000	75,000	72,191	131,993	15,198	2006	15,198
Total principal amount		721,775	$392,816	$ 261,548	853,043		$ 21,048
Unamortized premium		4,277			11,120		
Unamortized discount and losses on refundings		(2,413)			(3,570)		
Total single-family		$723,639			$860,593		

	Original Face Amount	Balance September 1, 2005	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
RMRB:							
1998 Series A—4.05% to 5.35%	$ 102,055	$ 52,745	$ -	$ 6,670	$ 46,075	2031	$ 1,315
1998 Series B—5.30%	14,300	8,645		450	8,195	2022	
1999 Series A—4.80% to 5.50%	25,615	7,785		1,070	6,715	2021	
1999 Series B-1—6.32% to 5.50%	52,260	30,200		4,450	25,750	2032	
1999 Series C—5.05% to 6.25%	12,150	4,480		600	3,880	2024	
2000 Series A—5.10% to 6.30%	50,000	21,730		3,320	18,410	2031	260
2000 Series B—5.70%	82,975	63,020		8,275	54,745	2033	
2000 Series C—5.85% to 5.82%	13,675	9,580		665	8,915	2025	
2000 Series D—4.55% to 5.85%	18,265	9,430		1,630	7,800	2020	570
2001 Series A—3.15% to 5.70%	52,715	40,595		3,870	36,725	2033	685
2001 Series B—5.0% to 5.25%	15,585	12,680		290	12,390	2022	
2001 Series C—2.55% to 4.63%	32,225	14,845		3,025	11,820	2015	1,145
2001 Series D—5.35%	300	235			235	2033	
2002 Series A—2.25% to 5.35%	42,310	39,060		4,880	34,180	2034	605
2003 Series A—1.70% to 5.00%	73,630	71,735		2,505	69,230	2034	1,175
Total principal amount		386,765	$ -	$ 41,700	345,065		$ 5,755
Unamortized premium		3,416			2,525		
Unamortized discount and loss on refundings		(1,645)			(1,442)		
Total RMRB		$388,536			$346,148		
CHMRB:							
1992 Series C—linked rate averaging 6.90%	$ 72,700	$ 20,600		$ 5,700	$ 14,900	2024	
Total principal		20,600		$ 5,700	14,900		
Plus unamortized premium		458			325		
Total CHMRB		$ 21,058			$ 15,225		
SF MRB CHMRB:							
1994 Series C—6.25%	$ 15,360	$ 3,500		$ 3,500	$ -	2026	
Total SF MRB CHMRB		$ 3,500		$ 3,500	$ -		

	Original Face Amount	Balance September 1, 2005	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
1987 Series (South Texas Rental Housing)—9.5%	$ 1,400	$ 773	$ -	$ 77	$ 696	2012	$ 84
1993 Series A and B Refunding (High Point III Development/ Remington Hill Development)	26,370	11,390			11,390	2023	
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		2,200	12,670	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 (Harbors and Plumtree)—5.9% to 10%	13,050	11,360		11,360		2026	
1998 Series (Pebble Brook)—4.95% to 5.60%	10,900	10,245		170	10,075	2030	180
1998 Series A, B, and C (Residence Oaks)—5.98% to 7.18%	8,200	7,683		134	7,549	2030	141
1998 Series (Volente)—5.00% to 5.63%	10,850	10,170		165	10,005	2031	175
1998 Series (Dallas—Oxford Rfdg.)—7.25%	10,300	10,300			10,300	2018	
1998 Series (Greens)—5.2% to 6.03%	13,500	12,755		210	12,545	2030	220
1999 Series (Mayfield)—5.7% to 7.25%	11,445	10,792		187	10,605	2031	199
1999 Series (Woodglen Village)—7.38% to 8.25%	10,660	10,505			10,505	2039	118
2000 Series (Timber Point)—variable rate	8,100	7,900		100	7,800	2032	
2000 Series (Oaks @ Hampton)—7.20% to 9.00%	10,060	9,885		62	9,823	2040	68
2000 Series (Deerwood)—5.25% to 6.40%	6,435	6,245		85	6,160	2032	85
2000 Series (Creek Point)—variable rate	7,200	6,785		100	6,685	2032	
2000 Series A/B (Parks @ Westmoreland—7.20% to 9.00%	9,990	9,832		61	9,771	2040	67
2000 Series (Honeycreek)—7.63% to 8.15%	20,485	20,363			20,363	2035	253
2000 MF Series A-C (Highland Meadow Apts)—6.75% to 8%	13,500	11,159		137	11,022	2033	145
2000 MF Series A/B (Greenbridge)—7.4% to 10%	20,085	19,891			19,891	2040	211
2000 MF Series A-C (Collingham Park)—6.72% to 7.72%	13,500	13,277		162	13,115	2033	172
2000 MF Series A/B (Williams Run)—7.65% to 9.25%	12,850	12,577		16	12,561	2040	173
2000 MF Series A/B (Red Hills Villas) - 8.4% to 9.5%	10,300	10,188		49	10,139	2040	54
2001 MF Series (Bluffview Senior Apts)—7.65%	10,700	10,595		51	10,544	2041	55
2001 MF Series (Knollwood Villas Apts)—7.65%	13,750	13,615		66	13,549	2041	71
2001 MF Series (Skyway Villas)—6.0% to 6.5%	13,250	13,115		4,230	8,885	2034	130

(Continued)

	Original Face Amount	Balance September 1, 2005	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
2001 MF Series A/B (Cobb Park)—6.77%	$ 7,785	$ 7,722	$ -	$ 35	$ 7,687	2041	$ 38
2001 MF Series A (Greens Road Apts)—5.3% to 5.4%	8,375	8,275		105	8,170	2034	110
2001 MF Series A (Meridian Apts)—5.45% to 6.85%	14,310	14,220		160	14,060	2034	175
2001 MF Series A (Wildwood Apts)—5.45% to 6.75%	14,365	14,280		165	14,115	2034	175
2001 MF Series A-C (Fallbrook Apts)—6.06% to 6.78%	14,700	14,614		180	14,434	2034	193
2001 MF Series A (Oak Hollow Apts)—7.0% to 7.9%	8,625	8,123		1,705	6,418	2041	37
2001 MF Series A/B (Hillside Apts)—7.0% to 9.25%	12,900	12,804		63	12,741	2041	69
2002 MF Series A (Millstone Apts)—5.35% to 5.86%	12,700	12,620		165	12,455	2035	180
2002 MF Series A (Sugar Creek Apts)—6.0%	11,950	11,855		35	11,820	2042	105
2002 MF Series A (West Oaks Apts)—7.15% to 7.5%	10,150	9,676		33	9,643	2042	70
2002 MF Series A (Park Meadows Apts)—6.53%	4,600	4,550		155	4,395	2034	60
2002 MF Series A (Clarkridge Villas Apts)—7.0%	14,600	14,531		74	14,457	2042	79
2002 MF Series A (Hickory Trace Apts)—7.0%	11,920	11,873		410	11,463	2042	62
2002 MF Series A (Green Crest Apts)—7.0%	12,500	12,451		1,023	11,428	2042	77
2002 MF Series A/B (Ironwood Crossing)—5.5% to 8.75%	16,970	16,970		51	16,919	2042	67
2002 MF Series A/B (Woodway Village Apts)—4.9% to 5.2%	9,100	9,100		1,355	7,745	2023	100
2003 MF Series A/B (Reading Road Apts)—Variable not to excee	12,200	12,200			12,200	2036	120
2003 MF Series A/B (North Vista Apts)—4.1% to 5.41%	14,000	14,000			14,000	2036	200
2003 MF Series A/B (West Virginia Apts)—4.15% to 5.41%	9,450	9,450			9,450	2036	135
2003 MF Series A/B (Sphinx @ Murdeaux)—3.55% to 5.0%	15,085	15,015		140	14,875	2042	160
2003 MF Series A/B (Primrose Houston School)—5.5% to 8.0%	16,900	16,900		276	16,624	2036	73
2003 MF Series A/B (Timber Oaks Apts)—6.75 to 8.75%	13,200	13,196		47	13,149	2043	51
2003 MF Series A/B (Ash Creek Apts)—5.6% to 15.0%	16,375	16,375		24	16,351	2036	73
2003 MF Series A/B (Peninsula Apts)—4.25 to 5.3%	12,400	12,400			12,400	2024	80
2003 MF Series A/B (Evergreen @ Mesquite)—6.6% to 8.0%	11,000	11,000		41	10,959	2043	103
2003 MF Series A/B (Arlington Villas Apts)—Variable rate	17,100	17,100			17,100	2036	46
2003 MF Series A/B (Parkview Twnhms Apts)—6.6% to 8.5%	16,600	16,600		45	16,555	2043	73

(Continued)

	Original Face Amount	Balance September 1, 2005	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
2003 MF Series A (NHP-Asmara Apts) Refunding—Variable rate	$31,500	$ 31,500	$ -	$ 9,875	$ 21,625	2033	$ 335
2004 MF Series A/B (Timber Ridge Apts)—5.75% to 8.0%	7,500	7,500		800	6,700	2037	32
2004 MF Series A/B (Century Park Apts)—Variable rate	13,000	13,000			13,000	2037	65
2004 MF Series A (Addison Park Apts)—Variable rate	14,000	14,000			14,000	2044	60
2004 MF Series A/B (Veterans Memorial Apts)—6.6% to 8.5%	16,300	16,300		34	16,266	2044	73
2004 MF Series A (Rush Creek Apts)—5.38% to 6.7%	10,000	10,000		4	9,996	2044	52
2004 MF Series A (Humble Park Apts)—5.38% to 6.7%	11,700	11,700			11,700	2041	90
2004 MF Series A (Chisholm Trail Apts)—Variable rate	12,000	12,000			12,000	2037	130
2004 MF Series A (Evergreen @ Plano Apts)—5.25% to 6.55%	14,750	14,750			14,750	2044	13
2004 MF Series A (Montgomery Pines Apts)—Variable rate	12,300	12,300			12,300	2037	145
2004 MF Series A (Bristol Apts)—Variable rate	12,625	12,625			12,625	2037	75
2004 MF Series A (Pinnacle Apts)—Variable rate	14,500	14,500			14,500	2044	90
2004 MF Series A (Tranquility Bay Apts)—Variable rate	14,350	14,350		18	14,332	2044	79
2004 MF Series A (Sphinx @ Delafield Apts)—5.05% to 5.35%	11,380	11,380		49	11,331	2044	95
2004 MF Series A (Churchill @ Pinnacle Apts)—5.25% to 6.55%	10,750	10,750			10,750	2044	
2004 MF Series A/B (Post Oak East Apts)—Variable rate	13,600	13,600			13,600	2037	105
2004 MF A Series (Village Fair Apts)—5.0% to 6.5%	14,100	14,100			14,100	2044	50
2005 MF A Series (Pecan Grove Apts)—5.0% to 6.5%	14,030	14,030			14,030	2045	44
2005 MF Series A (Prairie Oaks Apts)—4.75% to 6.5%	11,050	11,050			11,050	2045	34
2005 MF Series A (Port Royal Apts)—5.0% to 6.5%	12,200	12,200			12,200	2045	32
2005 MF Series A (Del Rio Apts)—5.0% to 6.5%	11,490	11,490			11,490	2045	31
2005 MF Series A (Atascocita Pines Apts)—Variable rate	11,900	11,900			11,900	2037	
2005 MF Series A (Tower Ridge Apts)—Variable rate	15,000	15,000			15,000	2038	
2005 MF Series A (Alta Cullen Apts)—5.89% to 6.6%	14,000	14,000			14,000	2045	
2005 MF Series A (Lafayette Village Apts)—Variable rate	14,100	14,100			14,100	2038	
2005 MF Series A (Prairie Ranch Apts)—4.85%	12,200	12,200			12,200	2045	
2005 MF Series A (St. Augustine Apts)—Variable rate	7,650	7,650			7,650	2038	

(Continued)

	Original Face Amount	Balance September 1, 2005	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2006	Final Maturity Date	Amounts Due Within One Year
2005 MF Series A (Park Manor Apts)—5.0% to 6.4%	$10,400	$ 10,400	$ -	$ -	$ 10,400	2045	$ -
2005 MF Series A (Mockingbird Apts)—6.4%	14,360	14,360			14,360	2045	
2005 MF Series A (Chase Oaks Apts)—5.05%	14,250	14,250			14,250	2035	95
2006 MF Series A (Canal Place Apts)—Variable rate			16,100		16,100	2039	
2006 MF Series A (Coral Hills) —5.05%			5,320		5,320	2038	
2006 MF Series A (Harris Branch) —Variable rate			15,000		15,000	2039	
2006 MF Series A (Bella Vista) —6.15%			6,800		6,800	2046	
2006 MF Series A (Village Park) —4.75% to 5.13%			13,660		13,660	2026	
2006 MF Series A (Oakmoor) —5.50% to 6.00%			14,635		14,635	2046	
2006 MF Series A (Sunset Pointe) —Variable rate			15,000		15,000	2039	
2006 MF Series A (Hillcrest) —-5.25%			12,435		12,435	2039	
2006 MF Series A (Pleasant Village) —-6.00%			6,000		6,000	2023	
2006 MF Series A (Grove Village) —-6.00%			6,180		6,180	2023	
Total principal amount		$ 1,033,504	$111,130	$ 36,689	$ 1,107,945		$7,037
Net deferred amount on refunding		(2,155)			(1,197)		
Unamortized discount		(583)			(565)		
Total multifamily		1,030,766			1,106,183		
Total		$ 2,167,499			$ 2,328,149		

(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.

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 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. On December 31, 2005, the Department was temporarily authorized to increase the aggregate principal amount of the notes to $200,000,000 from $75,000,000 for the purpose of warehousing new volume cap. The authorization expires December 31, 2006.

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, 2006, are as follows (in thousands):

Description	2007	2008	2009	2010	2011	2012 to 2016	2017 to 2021
Single-family	$ 21,048	$ 11,605	$ 13,795	$ 13,315	$ 13,785	$ 82,650	$104,925
RMRB	5,755	6,020	6,280	6,250	5,085	26,470	59,110
CHMRB							
Multifamily	7,037	8,306	9,729	10,840	11,614	68,344	104,089
Total	$ 33,840	$ 25,931	$ 29,804	$ 30,405	$ 30,484	$ 177,464	$268,124

Description	2022 to 2026	2027 to 2031	2032 to 2036	2037 to 2041	2042 to 2046	Total
Single-family	$142,520	$197,085	$223,470	$ 28,845	$ -	$ 853,043
RMRB	58,000	87,200	84,895			345,065
CHMRB	14,900					14,900
Multifamily	198,310	171,900	222,066	187,865	107,846	1,107,946
Total	$413,730	$456,185	$530,431	$216,710	$107,846	$2,320,954

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, 2006, are as follows (in thousands):

Description	2007	2008	2009	2010	2011	2012 to 2016	2017 to 2021
Single-family	$ 59,601	$ 49,711	$ 51,363	$ 50,359	$ 50,261	$ 254,927	$255,686
RMRB	24,281	24,291	24,273	23,953	22,520	109,766	132,979
CHMRB	1,028	1,031	1,028	1,028	1,028	5,146	5,143
Multifamily	78,346	73,456	74,430	75,036	75,183	372,631	378,980
Total	$163,256	$148,489	$151,094	$150,376	$148,992	$ 742,470	$772,788

Description	2022 to 2026	2027 to 2031	2032 to 2036	2037 to 2041	2042 to 2046	Total
Single-family	$266,750	$278,666	$255,075	$ 29,412	$ -	$1,601,811
RMRB	114,467	127,800	90,352			694,682
CHMRB	17,812					33,244
Multifamily	435,559	352,939	348,328	250,465	120,536	2,635,889
Total	$834,588	$759,405	$693,755	$279,877	$120,536	$4,965,626

Deferred issuance costs at August 31, 2006, consist of the following (in thousands):

Deferred issuance costs	$ 37,311
Less accumulated amortization	(26,018)
	$ 11,293

9. 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 6.45% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ending August 31, 2006, 2005, and 2004 were $874,775, $784,304, and $775,708, respectively, equal to the required contributions for each year.

10. SEGMENT FINANCIAL DATA

Segment financial data of the Program's direct-debt activities at August 31, 2006, 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
CONDENSED STATEMENT OF NET ASSETS:					
Restricted assets:					
Current assets	$ 82,745	$ 6,658	$ 684	$ 10	$
Other assets	802,227	351,732	16,402		
Total assets	884,972	358,390	17,086	10	
Liabilities:					
Current liabilities	28,218	11,389	506		
Long-term liabilities	839,545	341,649	15,225		
Total liabilities	867,763	353,038	15,731		
NET ASSETS—Restricted net assets	$ 17,209	$ 5,352	$ 1,355	$ 10	$
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:					
Operating revenues:					
Interest and investment income	$ 33,001	$ 21,154	$ 1,386	$ 7	$ 151
Net increase (decrease) in fair value	(21,956)	(10,835)	(625)		
Other operating revenues	566	347	51		
Operating expenses	(36,951)	(20,265)	(1,172)		(302)
Depreciation and amortization	(506)	(422)	(7)		(42)
Operating income (loss)	(25,846)	(10,021)	(367)	7	(193)
Non-operating revenues (expenses)—other non-operating revenues (expenses):	16				
Special and extraordinary items					
Transfers out	(16)	(125)	6	(754)	3
Change in net assets	(25,846)	(10,146)	(361)	(747)	(190)
Net assets—September 1, 2005	43,055	15,498	1,716	757	190
Net assets—August 31, 2006	$ 17,209	$ 5,352	$ 1,355	$ 10	$
CONDENSED STATEMENT OF CASH FLOWS:					
Net cash provided by (used in):					
Operating activities	$ 6,724	$ (1,961)	$ (25)	$	$ (4)
Noncapital financing activities	165,512	(62,028)	(6,906)	(754)	(3,800)
Investing activities	(159,979)	55,792	6,932	7	3,783
Cash and cash equivalents—September 1, 2005	48,879	12,610	586	755	21
Cash and cash equivalents—August 31, 2006	$ 61,136	$ 4,413	$ 587	$ 8	$

11. BONDED INDEBTEDNESS

The Department has 112 bond issues outstanding at August 31, 2006. All series are revenue bonds backed by the pledged revenue sources and restricted funds specified in the bond resolutions. Each series is designed to be self-supporting with no repayment nor obligation from the State's General

Revenue. The Department issues bonds to assist in financing the purchase of homes by or the construction of rental housing for families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. (Detailed supplemental bond information is disclosed in Schedules 3-8.)

Proceeds from the issuance of bonds under the Single Family and Residential Mortgage Revenue Bonds ("RMRB") Series 1987A Programs were used to acquire loans. Proceeds from Collateralized Home Mortgage Revenue Bond ("CHMRB") and the remaining RMRB programs were used to acquire pass-through certificates backed by mortgage loans. Proceeds from the remaining Multifamily bond issues were used to finance mortgage loans.

Interest on bonds and collateralized mortgage obligations 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 the following: failure to make timely payment of both principal and interest on any outstanding bond; failure to make timely payment of any other monies required to be paid to the Trustee; and nonperformance or nonobservance of any other covenants, agreements, or conditions contained in the indentures. Management believes they are in compliance with the covenants of the indentures.

Changes in Bonds Payable (amounts in thousands)—

Description	Bonds Outstanding September 1, 2005	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2006	Amounts Due Within One Year
Single family	$ 646,775	$320,625	$ 2,590	$126,965	$ 837,845	$ 5,850
RMRB	386,765		5,940	35,760	345,065	5,755
CHMRB	20,600			5,700	14,900	
SF CHMRB	3,500			3,500		
Multifamily	1,033,504	111,130	3,797	32,892	1,107,945	7,037
Commercial paper	75,000	72,191	131,993		15,198	15,198
Total principal	2,166,144	$503,946	$144,320	$204,817	2,320,953	$33,840
Net deferred amount—						
Due to refunding	(2,155)				(1,197)	
Unamortized premium	7,568				13,405	
Unamortized refunding (loss)	(4,059)				(5,012)	
Total	$2,167,498				$2,328,149	

Variable to Fixed Interest Rate Swap—

Objective—In order to hedge against increases in interest rates on variable rate demand bond issues, the Department has entered into three interest rate swap agreements with the objective of reducing the interest rate risk of certain variable rate demand bonds. The variable rate demand bonds were issued at a lower total interest cost than attainable through traditional fixed rate bond structures. The Department has entered into interest rate swap agreements with various rated counterparties. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

Terms and Fair Value—The terms, including the fair value of the outstanding swaps as of August 31, 2006, are as follows. The notional amounts of the swaps match the principal amount of the associated debt.

Counterparty	Notional Amount	Fair Value	Effective Date	Fixed Rate	Variable Rate	Swap Termination Date
UBS AG	$ 53,000,000	$ (341,966)	September 1, 2004	3.84%	63% of LIBOR + 0.30%	9/1/34 (a)
Goldman Sachs Capital Markets, LP	35,000,000	(58,177)	January 1, 2005	3.61	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + 0.45%) and LIBOR	3/1/35 (b)
Bear Stearns Financial Products, Inc.	100,000,000	(1,581,395)	August 1, 2005	3.99	Less of (the greater of 65% of LIBOR and 56% of LIBOR + 0.45%) and LIBOR	9.1/36 (c)
Total	$ 188,000,000	$(1,981,538)				

a. The swap agreement is subject to optional early termination, at par value, starting on March 1, 2015, and semiannually thereafter. The maximum notional amount subject to early termination equals 60% of the current notional amount.

b. The swap agreement is subject to optional early termination, at par value, starting on September 1, 2014, and semiannually thereafter. The maximum notional amount subject to early termination equals 60% of the applicable notional amount through September 1, 2023, and 100% of the applicable notional amount thereafter.

c. The swap agreement is subject to optional early termination, at par value, from prepayments at any time with a 10-business-day notice.

Credit Risk—As of August 31, 2006, the Department is not exposed to credit risk on any of its outstanding swaps because the swaps have negative fair values. If interest rates change and the fair value of the swaps become positive, the department would be exposed to credit risk on those swaps. The swap agreements contain varying collateral agreements and insurance policies with the counterparties. The credit ratings for the counterparties are as follows:

Counterparty	**Standard & Poor's**	**Moody's**	**Fitch**
UBS AG	AA+	Aa2	AA+
Goldman Sachs Capital Markets, LP	Not Rated	Aa3	AA-
Bear Stearns Financial Products, Inc.	AAA	Not Rated	Not Rated

Basis Risk—The Department's variable-rate bond coupon payments are equivalent to the Bond Market Association Municipal Swap Index ("BMA") rate. The swap agreements designate a function of London InterBank Offered Rate ("LIBOR") as the rate for payments received on these swaps. The Department will be exposed to basis risk should LIBOR and BMA converge. The swap agreements provide an option to terminate as stated above.

Rollover Risk—The Department is exposed to rollover risk on swap agreements which mature or may be terminated prior to the maturity of the associated debt. The following debt is exposed to rollover risk if the option for early termination is executed:

Associated Debt Issuance	**Debt Maturity Date**	**Swap Termination Date**
2004B Single Family	September 2034	May be terminated as early as March 2014
2004D Single Family	March 2035	May be terminated as early as September 2014
2005A Single Family	September 2036	May be terminated at anytime giving 10-day notice

Swap Payments and Associated Debt—Using rates as of August 31, 2006, debt service requirements of the Department's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate debt bond interest payments and new swap payments will vary. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds outstanding.

Fiscal Years Ending	**Variable-Rate Bonds**		**Interest Rate**	
August 31	**Principal**	**Interest**	**Swaps—Net**	**Total**
2007	$ 885,000	$ 4,579,948	$ 2,512,348	$ 7,977,296
2008	1,820,000	4,545,905	2,491,508	8,857,413
2009	1,895,000	4,498,985	2,462,783	8,856,768
2010	1,970,000	4,450,216	2,432,927	8,853,143
2011	2,050,000	4,399,471	2,401,861	8,851,332
2012–2016	16,580,000	21,086,827	11,462,774	49,129,601
2017–2021	31,270,000	18,010,781	9,778,257	59,059,038
2022–2026	37,815,000	13,707,451	7,460,536	58,982,987
2027–2031	44,410,000	8,647,712	4,719,303	57,777,015
2032–2036	46,500,000	2,674,453	1,481,603	50,656,056
2037–2038	2,805,000	105,188	64,395	2,974,583
Total	$188,000,000	$86,706,937	$47,268,295	$321,975,232

12. 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.

13. 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 $300,000 related to loan servicing for others, and a $350,000 public employee fidelity bond.

14. SUBSEQUENT EVENTS

On September 14, 2006, the Department issued $5,015,000 in multifamily revenue bonds (Red Hills Villas) made up as follows:

$ 5,015,000	MF 2006 Series A

On September 14, 2006, the Department issued $5,125,000 in multifamily revenue bonds (Champion's Crossing Apartments) made up as follows:

$ 5,125,000	MF 2006 Series A

On September 15, 2006, the Department issued $11,300,000 in multifamily revenue bonds (Stonehaven Apartment Homes) made up as follows:

$ 11,300,000	MF 2006 Series A

On September 19, 2006, the Department issued $8,325,000 in multifamily revenue bonds (Center Ridge Apartments) made up as follows:

$ 8,325,000	MF 2006 Series A

On September 26, 2006, the Department issued $13,500,000 in multifamily revenue bonds (Meadowlands Apartments) made up as follows:

$ 13,500,000	MF 2006 Series A

On October 24, 2006, the Department issued $13,500,000 in multifamily revenue bonds (East Tex Pines Apartments) made up as follows:

$ 13,500,000	MF 2006 Series A

On November 8, 2006, the Department issued $7,200,000 in multifamily revenue bonds (Villas @ Henderson Apartments) made up as follows:

$ 7,200,000	MF 2006 Series A

On November 9, 2006, the Department issued $9,800,000 in multifamily revenue bonds (Aspen Park Apartments) made up as follows:

$ 9,800,000	MF 2006 Series A

On November 22, 2006, the Department issued $14,250,000 in multifamily revenue bonds (Idlewilde Apartments) made up as follows:

$ 14,250,000	MF 2006

The multifamily bonds are issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily residential rental developments. Red Hills Villas will be located in Round Rock, Texas. Champion's Crossing Apartments will be located in San Marcos, Texas. Stonehaven Apartments and Meadowlands Apartments will be located in Houston, Texas. Center Ridge Apartments will be located in Duncanville, Texas. Villas @ Henderson Apartments will be located in Cleburne, Texas. East Tex Pines Apartments, Aspen Park Apartments, and Idlewilde Apartments will be located in Houston, Texas.

On November 15, 2006, the Department issued $132,195,000 in single family revenue bonds made up as follows:

$ 81,195,000	SF 2006 Series F (AMT)
15,000,000	SF 2006 Series G (AMT)
36,000,000	SF 2006 Series H (AMT)

The Series 2006 F (AMT) and Series H (AMT) bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "2006 F/G/H Mortgage Certificates") guaranteed as to timely payment of principal and interest by either Government National Mortgage Association ("Ginnie Mae"), Freddie Mac, or Fannie Mae which represent beneficial ownership of pools of Mortgage Loans (the "2006 Mortgage Loans"). The Series G (AMT) bonds are being issued for the primary purpose of refunding the Department's outstanding Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A, thereby providing funds for the purchase of 2006 F/G/H Mortgage Certificates. In connection with the issuance of the Series H (AMT) bonds, the Department will enter into an interest rate swap agreement (the "Swap Agreement") with the UBS AG (the "Swap Provider"), which will become effective upon the delivery of the Series H (AMT) bonds. Pursuant to the swap agreement payments will begin accruing on the date of delivery of the bonds and payments will be made semiannually beginning March 1, 2007. The swap provider will agree to pay to the Department on such date, payments computed based on a variable rate of 63% of LIBOR plus 0.30% intended to approximate the variable interest rate on the Series H (AMT) bonds, on a notional amount corresponding to the outstanding principal amount of the Series H (AMT) bonds, provided that the variable rate payments to the Department may not equal the variable interest payable on the Series H (AMT) bonds.

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SUPPLEMENTAL SCHEDULES

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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 (UNAUDITED)
AS OF AUGUST 31, 2006

ASSETS	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
CURRENT ASSETS:									
Cash and cash equivalents:									
Cash on hand	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 200	$ 200
Cash in bank								159,330	159,330
Cash in state treasury								757,860	757,860
Cash equivalents								12,219,705	12,219,705
Restricted assets:									
Cash and cash equivalents:									
Cash in bank	286,303	2		1,250,124		87			1,536,516
Cash equivalents	60,849,768	4,413,282	586,610	57,361,106	8,002		407,097		123,625,865
Short-term investments	15,891,456			52,249,076			15,198,000		83,338,532
Loans and contracts	3,332,262	90,934		7,037,000				123,711	10,583,907
Notes Receivable									
Interest receivable	2,382,424	2,138,547	97,530	13,928,126	2		56,223	18,249	18,621,101
Receivable:									
Interest receivable									
Accounts receivable		9						391,874	391,883
Consumable inventories								14,787	14,787
Other current assets	3,147	15,423			1,737	(3)		99,817	120,121
Total current assets	82,745,360	6,658,197	684,140	131,825,432	9,741	84	15,661,320	13,785,533	251,369,807
NONCURRENT ASSETS:									
Other receivables									
Capital assets:									
Nondepreciable—									
Other capital assets									
Depreciable:									
Furniture and equipment								1,302,873	1,302,873
Less accumulated depreciation								(1,166,237)	(1,166,237)
Restricted assets:									
Investments	750,062,019	347,164,900	16,288,068	59,762,578					1,173,277,565
Loans, contracts, and notes receivable	44,550,438	1,406,755		1,098,732,250				3,382,730	1,148,072,173
Other noncurrent assets:									
Deferred issuance cost—net	7,388,735	3,142,933	113,302	647,644			1		11,292,615
Real estate owned—net	225,745	17,263						158	243,166
Total noncurrent assets	802,226,937	351,731,851	16,401,370	1,159,142,472	-	-	1	3,519,524	2,333,022,155
TOTAL ASSETS	$ 884,972,297	$ 358,390,048	$17,085,510	$1,290,967,904	$9,741	$ 84	$15,661,321	$17,305,057	$2,584,391,962

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 1

SUPPLEMENTAL SCHEDULE—STATEMENT OF NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY (UNAUDITED) AS OF AUGUST 31, 2006

LIABILITIES	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
CURRENT LIABILITIES:									
Payables:									
Accounts payable	$ 43,263	$ 6,069	$ 732	$ 68	$ 20	$ 20	$ 767	$ 319,311	$ 370,250
Accrued bond interest payable	15,338,322	3,107,581	81,681	14,394,884	6		54,647		32,977,121
Due to other funds								35,884	35,884
Deferred revenues	1,210,817	1,156,369	423,731	(6,473)					2,784,444
Employee's compensable leave								255,237	255,237
Notes and loans payable									
Revenue bonds payable	5,850,000	5,755,000		7,037,000			15,198,000		33,840,000
Other current liabilities	5,776,078	1,363,804		75,361			407,097	39,962	7,662,302
Total current liabilities	28,218,480	11,388,823	506,144	21,500,840	26	20	15,660,511	650,394	77,925,238
NONCURRENT LIABILITIES:									
Employee's compensable leave								63,030	63,030
Revenue bonds payable	839,544,579	340,393,178	15,224,590	1,099,146,210					2,294,308,557
Other noncurrent liabilities		1,256,375		170,526,783				47,418	171,830,576
Total noncurrent liabilities	839,544,579	341,649,553	15,224,590	1,269,672,993				110,448	2,466,202,163
TOTAL LIABILITIES	$ 867,763,059	$ 353,038,376	$ 15,730,734	$ 1,291,173,833	$ 26	$ 20	$ 15,660,511	$ 760,842	$ 2,544,127,401
NET ASSETS									
INVESTED IN CAPITAL ASSETS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 136,636	$ 136,636
RESTRICTED	17,209,238	5,351,672	1,354,776	(205,929)	9,715	64	810		23,720,346
UNRESTRICTED								16,407,579	16,407,579
TOTAL NET ASSETS	$ 17,209,238	$ 5,351,672	$ 1,354,776	$ (205,929)	$ 9,715	$ 64	$ 810	$ 16,544,215	$ 40,264,561

See 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 (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2006

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
OPERATING REVENUES:									
Interest and investment income	$33,000,757	$21,154,225	$1,386,406	$60,787,702	$ 7,514	$ 151,392	$3,162,802	$ 628,330	$ 120,279,128
Net increase (decrease) in fair value	(21,956,216)	(10,835,114)	(624,280)						(33,415,610)
Other operating revenues	565,542	347,521	50,504	151,826				2,548,536	3,663,929
Total operating revenues	11,610,083	10,666,632	812,630	60,939,528	7,514	151,392	3,162,802	3,176,866	90,527,447
OPERATING EXPENSES:									
Salaries and wages								3,232,945	3,232,945
Payroll related costs								1,422,995	1,422,995
Professional fees and services	395,520	29,839					133,648	338,506	897,513
Travel								93,034	93,034
Materials and supplies								105,221	105,221
Communications and utilities								70,220	70,220
Repairs and maintenance								90,150	90,150
Rentals and leases								198,680	198,680
Printing and reproduction								26,235	26,235
Depreciation and amortization	505,861	422,242	7,249	14,392		41,946		92,946	1,084,636
Interest	32,623,792	19,415,312	1,150,342	60,967,635		299,113	3,033,456		117,489,650
Other operating expenses	3,931,125	819,911	21,952	664	204	3,378	25,022	384,589	5,186,845
Total operating expenses	37,456,298	20,687,304	1,179,543	60,982,691	204	344,437	3,192,126	6,055,521	129,898,124
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS	(25,846,215)	(10,020,672)	(366,913)	(43,163)	7,310	(193,045)	(29,324)	(2,878,655)	(39,370,677)
NONOPERATING REVENUES AND EXPENSES—Gain on sale of investments	16,316								16,316
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS— Transfers in (out)	(16,070)	(125,343)	5,725	(573,329)	(754,355)	2,706	24,255	4,413,870	2,977,459
CHANGE IN NET ASSETS	(25,845,969)	(10,146,015)	(361,188)	(616,492)	(747,045)	(190,339)	(5,069)	1,535,215	(36,376,902)
NET ASSETS—September 1, 2005	43,055,207	15,497,687	1,715,964	410,563	756,760	190,404	5,878	15,009,000	76,641,463
NET ASSETS—August 31, 2005	$17,209,238	$ 5,351,672	$1,354,776	$ (205,929)	$ 9,715	$ 65	$ 809	$16,544,215	$ 40,264,561

See independent auditors' report.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
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 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 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 (Jr. 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	
2004 Single Family Series A	123,610	2.00	4.70	2006	2035	03/01/2013	
2004 Single Family Series B	53,000	VAR—Weekly		2015	2034	03/01/2015	(g)
2004 Single Family Series A (Jr. Lien)	4,140	VAR —Weekly		2036	2036	09/01/2036	(g)
2004 Single Family Series C	41,245	4.30	4.80	2019	2036	09/01/2014	
2004 Single Family Series D	35,000	VAR—Weekly		2035	2035	(h)	
2004 Single Family Series E	10,825	2.45	4.30	2006	2013	09/01/2014	
2005 Single Family Series A	100,000	VAR—Weekly		2007	2036	03/01/2006	
2005 Single Family Series B	25,495	4.38	4.38	2006	2026	03/01/2006	
2005 Single Family Series C	8,970	4.31	5.39	2017	2017	03/01/2006	
2005 Single Family Series D	3,730	5.00	5.00	2025	2035	03/01/2006	
2006 Single Family Series A	59,555	5.00	5.00	2008	2037	09/01/2006	
2006 Single Family Series B	70,485	5.00	5.00	2008	2034	09/02/2006	
2006 Single Family Series C	105,410	5.13	5.13	2008	2037	09/03/2006	
2006 Single Family Series D	29,685	4.50	4.50	2018	2028	09/04/2006	
2006 Single Family Series E	17,295	4.06	4.06	2007	2017	09/05/2006	
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 C	12,150	5.05	6.25	2003	2024	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	
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	
2003 RMRB Series A	73,630	1.70	5.00	2005	2034	01/01/2013	
1992 Coll Home Mtg Rev Bonds, Series C	72,700	3.48	10.27	2024	2024	05/04/1995	
1994 SF MRB CHMRB Series C	15,360	6.25	6.25	2026	2026	06/27/2005	
2006 Commercial Paper Series A	15,198	3.63	3.63	2006	2006	11/09/2006	
Total single family and MRB bonds	$1,968,543						

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
1987 MF Series (South Texas Rental Housing)	$ 1,400	9.50 %	9.50 %	1988	2012	02/01/1988	
1993 MF Series A/B (RemHill/HighPt)	26,370	VAR—Weekly		2023	2023	02/01/2000	
1996 MF Series A/B (Brighton's Mark)	10,174	6.13	6.13	2026	2026	01/01/2003	
1996 MF Series A/B (Las Colinas)	15,469	5.65	5.65	2026	2026	01/01/2003	
1996 MF Series A/B (Braxton's Mark)	14,867	5.81	5.81	2026	2026	01/01/2003	
1996 MF Series A-D (Harbors/Plumtree)	13,050	5.90	10.00	1997	2026	07/01/2006	
1998 MF Series A (Pebble Brook)	10,900	4.95	5.60	2001	2030	06/01/2001	
1998 MF Series A-C (Residence Oaks)	8,200	5.98	7.18	2001	2030	05/01/2001	
1998 MF Series A (Volente Project)	10,850	5.00	5.63	2001	2031	07/01/2001	
1998 MF Series A (Dallas Oxford Refndg)	10,300	7.25	7.25	2018	2018	01/01/2004	
1998 MF Series A/B (Greens of Hickory Trial)	13,500	5.20	6.03	2001	2030	09/01/2008	
1999 MF Series A-C (Mayfield)	11,445	5.70	7.25	2001	2031	05/01/2002	
1999 MF Series A (Woodglen Village)	10,660	7.38	8.25	2002	2039	12/01/2016	
2000 MF Series A (Timber Point Apts)	8,100	VAR—Weekly		2003	2032	07/01/2000	(a)
2000 MF Series A/B (Oaks at Hampton)	10,060	7.20	9.00	2002	2040	03/01/2017	(a)
2000 MF Series A (Deerwood Apts)	6,435	5.25	6.40	2003	2032	06/01/2010	
2000 MF Series A (Creek Point Apts)	7,200	VAR—Weekly		2004	2032	07/01/2000	(a)
2000 MF Series A/B (Parks @ Westmoreland)	9,990	7.20	9.00	2002	2040	07/01/2017	(a)
2000 MF Series A (Honeycreek)	20,485	7.63	8.15	2004	2035	06/30/2007	
2000 MF Series A-C (Highland Meadow Apts)	13,500	6.75	8.00	2004	2033	05/01/2019	
2000 MF Series A/B (Greenbridge)	20,085	7.40	10.00	2003	2040	03/01/2014	
2000 MF Series A-C (Collingham Park)	13,500	6.72	7.72	2004	2033	05/01/2019	
2000 MF Series A/B (Williams Run)	12,850	7.65	9.25	2002	2040	01/01/2011	
2000 MF Series A/B (Red Hills Villas)	10,300	8.40	9.50	2003	2040	12/01/2017	
2001 MF Series A (Bluffview Senior Apts)	10,700	7.65	7.65	2003	2041	05/01/2018	
2001 MF Series A (Knollwood Villas Apts)	13,750	7.65	7.65	2003	2041	05/01/2018	
2001 MF Series A (Skyway Villas)	13,250	6.00	6.50	2005	2034	12/01/2011	
2001 MF Series A/B (Cobb Park)	7,785	6.77	6.77	2003	2041	07/01/2018	
2001 MF Series A (Greens Road Apts.)	8,375	5.30	5.40	2004	2034	12/01/2011	
2001 MF Series A/B (Meridian Apts.)	14,310	5.45	6.85	2004	2034	12/01/2011	
2001 MF Series A/B (Wildwood Apts.)	14,365	5.45	6.75	2004	2034	12/01/2011	
2001 MF Series A-C (Fallbrook Apts.)	14,700	6.06	6.78	2005	2034	01/01/2012	
2001 MF Series A (Oak Hollow Apts.)	8,625	7.00	7.90	2003	2041	11/01/2018	
2001 MF Series A/B (Hillside Apts.)	12,900	7.00	9.25	2003	2041	11/01/2018	
2002 MF Series A (Millstone Apts.)	12,700	5.35	5.86	2005	2035	06/01/2012	
2002 MF Series A (Sugar Creek Apts.)	11,950	6.00	6.00	2004	2042	01/01/2016	
2002 MF Series A (West Oaks Apts.)	10,150	7.15	7.50	2004	2042	12/01/2018	
2002 MF Series A (Park Meadows Apts)	4,600	6.53	6.53	2004	2034	05/01/2012	
2002 MF Series A (Clarkridge Villas Apts)	14,600	7.00	7.00	2004	2042	08/01/2019	
2002 MF Series A (Hickory Trace Apts)	11,920	7.00	7.00	2004	2042	12/01/2019	
2002 MF Series A (Green Crest Apts)	12,500	7.00	7.00	2004	2042	11/01/2019	
2002 MF Series A/B (Ironwood Crossing)	16,970	5.50	8.75	2005	2042	10/01/2027	
2002 MF Series A (Woodway Village Apts)	9,100	4.95	5.20	2006	2023	01/01/2013	

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
2003 MF Series A/B (Reading Road)	$ 12,200	VAR—Weekly		2007	2036	01/01/2004	(a)
2003 MF Series A/B (North Vista Apts)	14,000	4.10 %	5.41 %	2006	2036	06/01/2013	
2003 MF Series A/B (West Virginia Apts)	9,450	4.15	5.41	2006	2036	06/01/2013	
2003 MF Series A/B (Sphinx @ Murdeaux)	15,085	3.55	5.00	2005	2042	06/20/2013	
2003 MF Series A/B (Primrose Houston School)	16,900	5.50	8.00	2006	2036	07/01/2003	(a)
2003 MF Series A/B (Timber Oaks Apts)	13,200	6.75	8.75	2005	2043	06/01/2020	
2003 MF Series A/B (Ash Creek Apts)	16,375	5.60	15.00	2006	2036	10/01/2003	(a)
2003 MF Series A/B (Peninsula Apts)	12,400	4.25	5.30	2007	2024	10/01/2013	
2003 MF Series A (Evergreen @ Mesquite)	11,000	6.60	8.00	2006	2043	09/01/2020	
2003 MF Series A/B (Arlington Villas)	17,100	VAR—Weekly (c)		2007	2036	01/01/2007	(a)
2003 MF Series A/B (Parkview Twnhms)	16,600	6.60	8.50	2006	2043	12/01/2020	
2003 MF Series A (NHP-Asmara) Refunding	31,500	VAR—Weekly		2007	2033	07/01/2007	(a)
2004 MF Series A/B (Timber Ridge)	7,500	5.75	8.00	2007	2037	03/01/2007	(a)
2004 MF Series A/B (Century Park)	13,000	VAR—Weekly (d)		2007	2037	05/01/2007	(a)
2004 MF Series A (Addison Park)	14,000	VAR—Weekly (c)		2007	2044	01/01/2007	(a)
2004 MF Series A/B (Veterans Memorial)	16,300	6.60	8.50	2006	2044	03/01/2006	(a)
2004 MF Series A (Rush Creek)	10,000	5.38	6.70	2006	2044	03/01/2021	
2004 MF Series A (Humble Park)	11,700	6.60	6.60	2007	2041	07/01/2021	
2004 MF Series A (Chisholm Trail)	12,000	VAR—Weekly (b)		2006	2037	10/15/2006	(a)
2004 MF Series A (Evergreen @ Plano)	14,750	5.25	6.55	2007	2044	06/01/2021	
2004 MF Series A (Montgomery Pines)	12,300	VAR—Weekly		2006	2037	12/15/2006	(a)
2004 MF Series A (Bristol)	12,625	VAR—Weekly		2007	2037	06/15/2007	(a)
2004 MF Series A (Pinnacle)	14,500	VAR—Weekly (c)		2007	2044	09/01/2007	(a)
2004 MF Series A (Tranquility Bay)	14,350	VAR—Weekly (c)		2007	2044	06/01/2021	(f)
2004 MF Series A (Sphinx @ Delafield)	11,380	5.05	5.35	2006	2044	07/20/2014	
2004 MF Series A (Churchill @ Pinnacle)	10,750	5.25	6.55	2007	2044	09/1/2021	(f)
2004 MF Series A/B (Post Oak East)	13,600	VAR—Weekly		(e)	2037	(e)	
2004 MF Series A (Village Fair)	14,100	5.00	6.50	2007	2044	12/01/2021	
2005 MF Series A (Pecan Grove)	14,030	5.00	6.50	2007	2045	01/01/2022	
2005 MF Series A (Prairie Oaks)	11,050	4.75	6.50	2007	2045	01/01/2022	
2005 MF Series A (Port Royal)	12,200	5.00	6.50	2007	2045	02/01/2022	
2005 MF Series A (Del Rio)	11,490	5.00	6.50	2007	2045	02/01/2022	
2005 MF Series A (Atascocita Pines)	11,900	VAR—Weekly (c)		2007	2037	(g)	
2005 MF Series A (Tower Ridge)	15,000	VAR—Weekly (b)		2009	2038	(g)	
2005 MF Series A (Alta Cullen)	14,000	5.89	6.60	2007	2045	06/01/2022	
2005 MF Series A (Lafayette Village)	14,100	VAR—Weekly		2008	2038	n/a	
2005 MF Series A (Prairie Ranch)	12,200	4.85	4.85	2007	2045	12/20/2015	
2005 MF Series A (St Augustine)	7,650	VAR—Weekly		2009	2038	n/a	
2005 MF Series A (Park Manor)	10,400	5.00	6.40	2008	2045	09/01/2022	
2005 MF Series A (Mockingbird)	14,360	6.40	6.40	2007	2045	08/01/2022	
2005 MF Series A (Chase Oaks)	14,250	5.05	5.05	2007	2035	(i)	
2006 MF Series A/B (Canal Place)	16,100	VAR—Weekly		2009	2039	(j)	
2006 MF Series A (Coral Hills)	5,320	5.05	5.05	2038	2038	08/01/2015	
2006 MF Series A (Harris Branch)	15,000	VAR—Weekly		2009	2039	(k)	
2006 MF Series A (Bella Vista)	6,800	6.15	6.15	2008	2046	04/01/2016	
2006 MF Series A (Village Park)	13,660	4.75	5.13	2009	2026	06/01/2021	
2006 MF Series A (Oakmoor)	14,635	5.50	6.00	2008	2046	03/01/2023	
2006 MF Series A (Sunset Pointe)	15,000	VAR—Weekly		2039	2039	(j)	
2006 MF Series A (Hillcrest)	12,435	5.25	5.25	2009	2039	04/01/2021	
2006 MF Series A (Pleasant Village)	6,000	6.00	6.00	2008	2023	(l)	
2006 MF Series A (Grove Village)	6,180	6.00	6.00	2008	2023	(l)	
Total multifamily bonds	$1,175,365						
TOTAL BONDS ISSUED	$3,143,908						

(Concluded)

FOOTNOTES:

(a) 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.

(b) Variable rate not to exceed the maximum rate permitted by applicable law.

(c) Variable rate could change to fixed rate provided the conversion option is exercised.

(d) Variable rate series and fixed rate series-variable rate could change to fixed rate provided the conversion option is exercised.

(e) No set amortization, per trustee, amortization will occur in $100,000 denominations when the amount in the principal reserve fund exceeds 20% of the issue.

(f) The bonds are subject to redemption, in whole, at the option of the issuer acting at the direction of the holders of a majority of the outstanding principal amount of the bonds.

(g) The bonds shall be subject to redemption prior to maturity, after giving the required notice, as follows:

During the variable interest rate period the 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.

(h) The series bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows:

During a daily interest rate period or weekly interest rate period for the series bonds, the 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.

(i) The bonds are subject to redemption at the option of the issuer, at the direction of the borrower, in whole or in part on the first day of any month, in the event and to the extent, the trustee receives funds from the borrower representing an optional prepayment of the principal of the note, at a redemption price equal to the principal thereof, plus accrued interest to the redemption date plus any premium remitted therewith as required by the note.

(j) bonds are subject to redemption if and to the extent, the borrower is entitled to make, or is required to make, a prepayment pursuant to the loan agreement.

(k) The bonds are subject to optional redemption in whole or in part upon optional prepayment of the loan by the borrower as permitted by the loan documents.

(l) The Bonds are subject to optional redemption at the direction of the borrower on any interest payment date, in whole or in part, at the redemption price (as calculated by the sole bondholder) calculated in accordance with the Exhibit H plus accrued and unpaid interest, if any, to the redemption date. Optional redemptions may be made only in denominations of $100,000 plus integral multiples of $5,000 or for the entire amount of the bonds outstanding.

CHANGES IN BOND INDEBTEDNESS
AS OF AUGUST 31, 2006

Description of Issue	Bonds Outstanding September 1, 2005	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2006	Amounts Due Within One Year
1995 Single Family Series A	$ 29,750,000	$ -	$ -	$ 29,750,000	$ -	$ -
1995 Single Family Series C	12,915,000			12,915,000	-	
1996 Single Family Series A	8,875,000			8,875,000	-	
1996 Single Family Series D	28,775,000			28,775,000	-	
1996 Single Family Series E	21,915,000		1,230,000	20,685,000	-	
1997 Single Family Series A	30,175,000				30,175,000	
1997 Single Family Series B	7,330,000			6,590,000	740,000	
1997 Single Family Series D	18,055,000			3,350,000	14,705,000	
1997 Single Family Series F	5,625,000			5,625,000	-	
2002 Single Family Series A (Jr Lien)	9,945,000			860,000	9,085,000	
2002 Single Family Series A	37,570,000			85,000	37,485,000	
2002 Single Family Series B	47,760,000			4,005,000	43,755,000	
2002 Single Family Series C	12,120,000		450,000	20,000	11,650,000	470,000
2002 Single Family Series D	8,270,000		910,000	415,000	6,945,000	895,000
2004 Single Family Series A	123,485,000			770,000	122,715,000	1,635,000
2004 Single Family Series B	53,000,000				53,000,000	
2004 Single Family Series A (Jr Lien)	4,140,000				4,140,000	
2004 Single Family Series C	41,245,000			2,375,000	38,870,000	280,000
2004 Single Family Series D	35,000,000				35,000,000	
2004 Single Family Series E	10,825,000			320,000	10,505,000	1,310,000
2005 Single Family Series A	100,000,000			30,000	99,970,000	885,000
2005 Single Family Series B		25,495,000		965,000	24,530,000	375,000
2005 Single Family Series C		8,970,000		310,000	8,660,000	
2005 Single Family Series D		3,730,000		245,000	3,485,000	
2006 Single Family Series A		59,555,000			59,555,000	
2006 Single Family Series B		70,485,000			70,485,000	
2006 Single Family Series C		105,410,000			105,410,000	
2006 Single Family Series D		29,685,000			29,685,000	
2006 Single Family Series E		17,295,000			17,295,000	
1998 RMRB Series A	52,745,000		1,295,000	5,375,000	46,075,000	1,315,000
1998 RMRB Series B	8,645,000			450,000	8,195,000	
1999 RMRB Series A	7,785,000			1,070,000	6,715,000	
1999 RMRB Series B-1	30,200,000			4,450,000	25,750,000	
1999 RMRB Series C	4,480,000			600,000	3,880,000	
2000 RMRB Series A	21,730,000		270,000	3,050,000	18,410,000	260,000
2000 RMRB Series B	63,020,000			8,275,000	54,745,000	
2000 RMRB Series C	9,580,000			665,000	8,915,000	
2000 RMRB Series D	9,430,000		595,000	1,035,000	7,800,000	570,000
2001 RMRB Series A	40,595,000		695,000	3,175,000	36,725,000	685,000
2001 RMRB Series B	12,680,000			290,000	12,390,000	
2001 RMRB Series C	14,845,000		1,270,000	1,755,000	11,820,000	1,145,000
2001 RMRB Series D	235,000				235,000	
2002 RMRB Series A	39,060,000		635,000	4,245,000	34,180,000	605,000
2003 RMRB Series A	71,735,000		1,180,000	1,325,000	69,230,000	1,175,000
1992 SF MRB CHMRB Series A-C	20,600,000			5,700,000	14,900,000	
1994 SF MRB CHMRB Series C	3,500,000			3,500,000	-	
Commercial Paper Notes Series A	75,000,000	72,191,000	131,993,000		15,198,000	15,198,000
Total single family bonds	1,132,640,000	392,816,000	140,523,000	171,925,000	1,213,008,000	26,803,000
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			2,199,512	12,670,000	
1998 MF Series (Dallas-Oxford Refdg)	10,300,000				10,300,000	
1996 MF Series A&B (Braxton's Mark)	14,273,700				14,273,700	
1993 MF Series A&B (Remhill / Highpt)	11,390,000				11,390,000	
1987 South Texas Rental Housing	773,136		76,612		696,524	84,000
1996 MF Series A-D (Harbors/Plumtree)	11,360,000		255,000	11,105,000	-	
1998 MF Series (Pebble Brook)	10,245,000		170,000		10,075,000	180,000
1998 MF Series A-C (Residence Oaks)	7,683,000		134,000		7,549,000	141,000
1998 MF Series (Volente)	10,170,000		165,000		10,005,000	175,000
1998 MF Series (Greens-Hickory Trail)	12,755,000		210,000		12,545,000	220,000
1999 MF Series (Mayfield)	10,793,000		187,000		10,606,000	199,000

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM **SCHEDULE 4**

CHANGES IN BOND INDEBTEDNESS
AS OF AUGUST 31, 2006

Description of Issue	Bonds Outstanding September 1, 2005	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2006	Amounts Due Within One Year
1999 MF Series (Woodglen Village)	$ 10,505,283	$ -	$ -	$ -	$ 10,505,283	$ 118,000
2000 MF Series (Timber Point Apts)	7,900,000			100,000	7,800,000	
2000 MF Series A/B (Oaks At Hampton)	9,884,487		62,394		9,822,093	68,000
2000 MF Series (Deerwood Apts)	6,245,000		85,000		6,160,000	85,000
2000 MF Series (Creek Point Apts)	6,785,000			100,000	6,685,000	
2000 MF Series A/B (Parks At Westmoreland)	9,832,514		61,161		9,771,353	67,000
2000 MF Series (Honeycreek)	20,363,158				20,363,158	253,000
2000 MF Series A-C (Highland Meadow Apts)	11,159,000		137,000		11,022,000	145,000
2000 MF Series A/B (Greenbridge @ Buckinghm	19,891,056				19,891,056	211,000
2000 MF Series A-C (Collingham Park Apts)	13,277,000		162,000		13,115,000	172,000
2000 MF Series A/B (Williams Run Apts)	12,577,216		16,309		12,560,907	173,000
2000 MF Series A/B (Red Hills Villas Apts)	10,187,423		48,765		10,138,657	54,000
2001 MF Series (Bluff Senior Apts)	10,595,007		50,999		10,544,008	55,000
2001 MF Series (Knollwood Villas Apts)	13,615,079		65,536		13,549,544	71,000
2001 MF Series A (Skyway Villas)	13,115,000		160,000	4,070,000	8,885,000	130,000
2001 MF Series A/B (Cobb Park Apts)	7,722,172		34,851		7,687,321	38,000
2001 MF Series A (Greens Road Apts)	8,275,000		105,000		8,170,000	110,000
2001 MF Series A/B (Meridian Apartments)	14,220,000		160,000		14,060,000	175,000
2001 MF Series A/B (Wildwood Branch	14,280,000		165,000		14,115,000	175,000
2001 MF Series A-C (Fallbrook Apts)	14,614,000		180,000		14,434,000	193,000
2001 MF Series (Oak Hollow Apts)	8,122,370		38,595	1,665,933	6,417,842	37,000
2001 MF Series A/B (Hillside Apts)	12,803,449		62,578		12,740,871	69,000
2001 MF Series A (Millstone Apts)	12,620,000		165,000		12,455,000	180,000
2002 MF Series (Sugarcreek Apts)	11,855,000		35,000		11,820,000	105,000
2002 MF Series (West Oaks Apts)	9,676,026		32,764		9,643,262	70,000
2002 MF Series (Park Meadows Apts)	4,550,000		55,000	100,000	4,395,000	60,000
2002 MF Series (Clarkridge Villas Apts)	14,531,069		73,914		14,457,154	79,000
2002 MF Series A (Hickory Trace Apts)	11,873,376		58,748	351,582	11,463,047	62,000
2002 MF Series A (Green Crest Apts)	12,451,108		44,474	978,737	11,427,896	77,000
2002 MF Series A/B (Iron Wood Crossing)	16,970,000		51,355		16,918,645	67,000
2002 MF Series A (Woodway Village)	9,100,000		90,000	1,265,000	7,745,000	100,000
2003 MF Series A/B (Reading Road)	12,200,000				12,200,000	120,000
2003 MF Series A/B (North Vista)	14,000,000				14,000,000	200,000
2003 MF Series A/B (West Virginia)	9,450,000				9,450,000	135,000
2003 MF Series A/B (Sphinx @ Murdeaux)	15,015,000		140,000		14,875,000	160,000
2003 MF Series A/B (Primrose Houston)	16,900,000		5,798	270,000	16,624,202	73,000
2003 MF Series A/B (Timber Oaks)	13,196,252		47,169		13,149,082	51,000
2003 MF Series A/B (Ash Creek Apts)	16,375,000		11,675	11,519	16,351,806	73,000
2003 MF Series A/B (Peninsula Apts)	12,400,000				12,400,000	80,000
2003 MF Series A (Evergreen @ Mesquite)	11,000,000		41,003		10,958,997	103,000
2003 MF Series A/B (Arlington Villas)	17,100,000				17,100,000	46,000
2003 MF Series A/B (Parkview Twnhms)	16,600,000		45,334		16,554,666	73,000
2003 MF Series (Nhp-Asmara)Refunding	31,500,000			9,875,000	21,625,000	335,000
2004 MF Series A/B (Timber Ridge)	7,500,000			800,000	6,700,000	32,000
2004 MF Series A/B (Century Park)	13,000,000				13,000,000	65,000
2004 MF Series A (Addison Park)	14,000,000				14,000,000	60,000
2004 MF Series A/B (Veterans Memorial)	16,300,000		34,111		16,265,889	73,000
2004 MF Series (Rush Creek)	10,000,000		4,143		9,995,857	52,000
2004 MF Series (Humble Park)	11,700,000				11,700,000	90,000
2004 MF Series (Chisholm Trail)	12,000,000				12,000,000	130,000
2004 MF Series (Evergreen @ Plano)	14,750,000				14,750,000	13,000
2004 MF Series (Montgomery Pines)	12,300,000				12,300,000	145,000
2004 MF Series (Bristol)	12,625,000				12,625,000	75,000
2004 MF Series (Pinnacle)	14,500,000				14,500,000	90,000
2004 MF Series (Tranquility Bay)	14,350,000		18,954		14,331,046	79,000
2004 MF Series (Sphinx @ Delafield)	11,380,000		50,000		11,330,000	95,000
2004 MF Series (Churchill @ Pinnacle)	10,750,000				10,750,000	
2004 MF Series A/B (Post Oak East)	13,600,000				13,600,000	105,000
2004 MF Series (Village Fair)	14,100,000				14,100,000	50,000
2005 MF Series (Pecan Grove)	14,030,000				14,030,000	44,000
2005 MF Series (Prairie Oaks)	11,050,000				11,050,000	34,000
2005 MF Series (Port Royal)	12,200,000				12,200,000	32,000
2005 MF Series (Mission Del Rio)	11,490,000				11,490,000	31,000
2005 MF Series (Atascocita)	11,900,000				11,900,000	
2005 MF Series (Tower Ridge)	15,000,000				15,000,000	

(Continued)

CHANGES IN BOND INDEBTEDNESS
AS OF AUGUST 31, 2006

Description of Issue	Bonds Outstanding September 1, 2005	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2006	Amounts Due Within One Year
2005 MF Series (Alta Cullen)	$ 14,000,000	$ -	$ -	$ -	$ 14,000,000	$ -
2005 MF Series (Lafayette Village)	14,100,000				14,100,000	
2005 MF Series (Prairie Ranch)	12,200,000				12,200,000	
2005 MF Series (St. Augustine)	7,650,000				7,650,000	
2005 MF Series (Park Manor)	10,400,000				10,400,000	
2005 MF Series (Providence @ Mockingbird)	14,360,000				14,360,000	
2005 MF Series (Plaza Chase Oaks)	14,250,000				14,250,000	95,000
2005 MF Series (Canal Place)		16,100,000			16,100,000	
2006 MF Series (Coral Hills)		5,320,000			5,320,000	
2006 MF Series (Harris Branch)		15,000,000			15,000,000	
2006 MF Series (Bella Vista)		6,800,000			6,800,000	
2006 MF Series (Village Park)		13,660,000			13,660,000	
2006 MF Series (Oakmoor)		14,635,000			14,635,000	
2006 MF Series (Sunset Pointe)		15,000,000			15,000,000	
2006 MF Series (Hillcrest)		12,435,000			12,435,000	
2006 MF Series (Pleasant Village)		6,000,000			6,000,000	
2006 MF Series (Grove Village)		6,180,000			6,180,000	
Total multifamily bonds	1,033,504,393	111,130,000	3,797,242	32,892,283	1,107,944,868	7,037,000
TOTAL BONDS	$2,166,144,393	$ 503,946,000	$ 144,320,242	$ 204,817,283	$2,320,952,868	$33,840,000

FOOTNOTES:
(a) Bonds Outstanding Balance at August 31, 2006, does not include unamortized premium or discounts.

Bonds Outstanding per schedule	$2,320,952,868
Unamortized (Discount) Premium:	
Single Family	11,119,575
RMRB	2,525,365
CHMRB	324,590
Multi-Family	(564,591)
Unamortized deferred gain (loss) on refunding:	
Single Family	(3,569,996)
RMRB	(1,442,188)
Deferred amount on refunding	(1,197,067)
Bonds outstanding	$2,328,148,557

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)— REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description		2007	2008	2009	2010
1997 Single Family Series A	Principal	$ -	$ -	$ -	$ -
1997 Single Family Series A	Interest	1,750	1,750	1,750	1,750
1997 Single Family Series B	Principal				
1997 Single Family Series B	Interest	40	40	40	40
1997 Single Family Series D	Principal				
1997 Single Family Series D	Interest	835	835	835	835
1997 Single Family Series F	Principal				
1997 Single Family Series F	Interest				
2002 Single Family Series A Junior Lien	Principal				
2002 Single Family Series A Junior Lien	Interest	637	637	637	637
2002 Single Family Series A	Principal				
2002 Single Family Series A	Interest	2,063	2,063	2,063	2,063
2002 Single Family Series B	Principal				
2002 Single Family Series B	Interest	2,376	2,376	2,376	2,376
2002 Single Family Series C	Principal	470	500	525	555
2002 Single Family Series C	Interest	556	536	514	490
2002 Single Family Series D	Principal	895	915	945	985
2002 Single Family Series D	Interest	251	218	182	141
2004 Single Family Series A	Principal	1,635	3,335	3,430	2,495
2004 Single Family Series A	Interest	5,439	5,360	5,266	5,191
2004 Single Family Series B	Principal				
2004 Single Family Series B	Interest	1,804	1,804	1,800	1,802
2004 Single Family Series A (Junior Lien)	Principal				
2004 Single Family Series A (Junior Lien)	Interest	221	221	220	221
2004 Single Family Series C	Principal	280	570	595	615
2004 Single Family Series C	Interest	1,851	1,823	1,794	1,763
2004 Single Family Series D	Principal				
2004 Single Family Series D	Interest	1,211	1,212	1,210	1,211
2004 Single Family Series E	Principal	1,310	1,080	1,110	1,155
2004 Single Family Series E	Interest	347	318	284	246
2005 Single Family Series A	Principal	885	1,820	1,895	1,970
2005 Single Family Series A	Interest	3,434	3,375	3,304	3,239
2005 Single Family Series B	Principal	375	385	400	425
2005 Single Family Series B	Interest	1,064	1,051	1,036	1,020
2005 Single Family Series C	Principal				
2005 Single Family Series C	Interest	462	462	461	462
2005 Single Family Series D	Principal				
2005 Single Family Series D	Interest	174	174	174	174
2006 Single Family Series A	Principal		230	490	525
2006 Single Family Series A	Interest	2,978	2,972	2,948	2,922
2006 Single Family Series B	Principal		725	1,495	1,560
2006 Single Family Series B	Interest	3,524	3,506	3,432	3,355
2006 Single Family Series C	Principal		755	1,570	1,650
2006 Single Family Series C	Interest	5,402	5,383	5,303	5,220
2006 Single Family Series D	Principal				
2006 Single Family Series D	Interest	1,336	1,336	1,336	1,336
2006 Single Family Series E	Principal		1,290	1,340	1,380
2006 Single Family Series E	Interest	703	654	603	550
Tax-Exempted Commercial Paper Notes	Principal	15,198			
Tax-Exempted Commercial Paper Notes	Interest	95			
Total Single Family Bonds		59,601	49,711	51,363	50,359
1998 RMRB Series A	Principal	1,315	1,370	1,435	1,495
1998 RMRB Series A	Interest	2,372	2,311	2,245	2,175
1998 RMRB Series B	Principal				
1998 RMRB Series B	Interest	434	434	434	434

(Continued)

SCHEDULE 5

2011	2012-16	2017-21	2022-26	2027-31	2032-36	2037-41	2042-46	Total Required
$ -	$ -	$ -	$ -	$ 30,175	$ -	$ -	$ -	$ 30,175
1,750	8,750	8,750	8,750	5,253				40,253
		740						740
40	200	104						504
				14,705				14,705
835	4,175	4,175	4,175	2,286				18,986
			6,800	2,285				9,085
637	3,185	3,185	2,707					12,262
			21,240		16,245			37,485
2,063	10,315	10,315	7,684	4,510	2,009			45,148
				10,135	33,620			43,755
2,376	11,880	11,880	11,880	10,402	2,567			60,489
590	6,630	2,380						11,650
463	1,499	58						4,116
1,015	2,190							6,945
97	51							940
2,490	13,870	10,800	13,045	15,915	55,700			122,715
5,108	23,912	21,497	18,751	15,349	8,425			114,298
	4,230	10,300	12,435	13,585	12,450			53,000
1,802	8,817	7,354	5,409	3,208	651			34,451
						4,140		4,140
221	1,104	1,103	1,104	1,104	1,101			6,620
640	4,205	6,560	8,325	8,600	8,480			38,870
1,732	8,107	6,837	4,998	3,019	789			32,713
	2,310	6,945	8,320	8,600	8,825			35,000
1,211	5,957	5,020	3,651	2,229	555			23,467
1,200	4,240	410						10,505
202	344	20						1,761
2,050	11,535	14,025	17,060	20,730	25,200	2,800		99,970
3,169	14,697	12,474	9,776	6,496	2,506			62,470
440	2,475	3,090	3,300	13,640				24,530
1,003	4,713	4,041	3,197					17,125
		8,660						8,660
462	2,309	459						5,077
			585	2,165	735			3,485
174	870	870	853	307	61			3,831
560	3,430	4,775	6,535	8,720	22,275	12,015		59,555
2,895	13,989	12,959	11,526	9,611	6,297	307		69,404
1,630	9,305	11,520	14,330	18,000	11,920			70,485
3,274	15,030	12,405	9,161	5,083	728			59,498
1,735	10,140	13,065	16,850	21,735	28,020	9,890		105,410
5,132	24,173	21,180	17,316	12,337	5,916	260		107,622
		7,895	13,695	8,095				29,685
1,336	6,680	5,991	3,292	387				23,030
1,435	8,090	3,760						17,295
494	1,520	84						4,608
								15,198
								95
50,261	254,927	255,686	266,750	278,666	255,075	29,412	-	1,601,811
		9,815		30,645				46,075
2,133	10,665	9,034	8,090	6,263				45,288
			8,195					8,195
434	2,170	2,170	224					6,734

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)— REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description		2007	2008	2009	2010
1999 RMRB Series A	Principal	$ -	$ -	$ -	$ -
1999 RMRB Series A	Interest	345	345	345	345
1999 RMRB Series B-1	Principal				
1999 RMRB Series B-1	Interest	1,698	1,698	1,698	1,698
1999 RMRB Series C	Principal				
1999 RMRB Series C	Interest	242	242	242	242
2000 RMRB Series A	Principal	260	270	285	
2000 RMRB Series A	Interest	1,144	1,129	1,114	1,104
2000 RMRB Series B	Principal				
2000 RMRB Series B	Interest	3,175	3,175	3,175	3,175
2000 RMRB Series C	Principal				
2000 RMRB Series C	Interest	520	520	520	520
2000 RMRB Series D	Principal	570	605	645	690
2000 RMRB Series D	Interest	402	374	343	309
2001 RMRB Series A	Principal	685	730	765	800
2001 RMRB Series A	Interest	1,972	1,937	1,899	1,859
2001 RMRB Series B	Principal				
2001 RMRB Series B	Interest	638	638	638	638
2001 RMRB Series C	Principal	1,145	1,205	1,255	1,315
2001 RMRB Series C	Interest	480	434	384	330
2001 RMRB Series D	Principal		5	10	10
2001 RMRB Series D	Interest	13	13	12	12
2002 RMRB Series A	Principal	605	625	640	665
2002 RMRB Series A	Interest	1,778	1,751	1,721	1,690
2003 RMRB Series A	Principal	1,175	1,210	1,245	1,275
2003 RMRB Series A	Interest	3,313	3,270	3,223	3,172
Total Residential Mtg Revenue Bonds		24,281	24,291	24,273	23,953
1992 Coll Home Mtg Rev Bds Series C	Principal				
1992 Coll Home Mtg Rev Bds Series C	Interest	1,028	1,031	1,028	1,028
Total Coll Home Mtg Revenue Bonds		1,028	1,031	1,028	1,028
1987 MF Series (South Texas Rental Housing)	Principal	84	93	102	112
1987 MF Series (South Texas Rental Housing)	Interest	62	53	44	34
1996 MF Series A/B (Brighton's Mark)	Principal				
1996 MF Series A/B (Brighton's Mark)	Interest	495	495	495	495
1996 MF Series A/B (Las Colinas)	Principal				
1996 MF Series A/B (Las Colinas)	Interest	716	716	716	716
1998 MF Series A (Dallas Oxford Refndg)	Principal				
1998 MF Series A (Dallas Oxford Refndg)	Interest	708	708	708	708
1996 MF Series A/B (Braxton's Mark)	Principal				
1996 MF Series A/B (Braxton's Mark)	Interest	829	829	829	829
1993 MF Series A&B (RemHill/HighPt Ref)	Principal				
1993 MF Series A&B (RemHill/HighPt Ref)	Interest	393	393	393	393
1998 MF Series (Pebble Brook)	Principal	180	190	205	215
1998 MF Series (Pebble Brook)	Interest	553	544	535	524
1998 MF Series A-C (Residence Oaks)	Principal	141	151	159	169
1998 MF Series A-C (Residence Oaks)	Interest	448	440	430	420
1998 MF Series A (Volente Project)	Principal	175	185	190	215
1998 MF Series A (Volente Project)	Interest	554	545	536	524
1998 MF Series (Greens of Hickory Trail)	Principal	220	240	250	270
1998 MF Series (Greens of Hickory Trail)	Interest	668	654	640	624
1999 MF Series A-C (Mayfield)	Principal	199	209	222	235
1999 MF Series A-C (Mayfield)	Interest	599	587	575	562
1999 MF Series (Woodglen Village)	Principal	118	66	71	76
1999 MF Series (Woodglen Village)	Interest	1,542	764	759	753
2000 MF Series (Timber Point Apts)	Principal				
2000 MF Series (Timber Point Apts)	Interest	273	273	273	273

(Continued)

SCHEDULE 5

2011	2012-16	2017-21	2022-26	2027-31	2032-36	2037-41	2042-46	Total Required
$ -	$ -	$ 6,715	$ -	$ -	$ -	$ -	$ -	$ 6,715
345	1,725	1,089						4,539
		9,100			16,650			25,750
1,698	8,490	8,383	5,260	5,260	885			36,768
			3,880					3,880
242	1,210	1,210	695					4,325
		4,490		13,105				18,410
1,104	5,520	4,812	4,130	3,987				24,044
			12,000		42,745			54,745
3,175	15,875	15,875	15,059	12,380	2,762			77,826
		5,240	3,675					8,915
520	2,600	2,243	719					8,162
730	3,485	1,075						7,800
273	726	210						2,637
210	1,325	1,705	9,050	14,235	7,220			36,725
1,830	8,940	8,510	7,287	4,034	439			38,707
725	4,335	5,920	1,410					12,390
623	2,506	1,211	44					6,936
1,375	5,525							11,820
272	473							2,373
10	40	45	45	45	25			235
11	49	36	25	12	2			185
715	4,165	5,255	6,325	10,535	4,650			34,180
1,657	7,692	6,472	5,032	2,761	270			30,824
1,320	7,595	9,750	13,420	18,635	13,605			69,230
3,118	14,655	12,614	9,902	5,903	1,099			60,269
22,520	109,766	132,979	114,467	127,800	90,352	-	-	694,682
			14,900					14,900
1,028	5,146	5,143	2,912					18,344
1,028	5,146	5,143	17,812	-	-	-	-	33,244
123	183							697
23	12							228
			8,075					8,075
495	2,475	2,475	2,475					9,900
			12,670					12,670
716	3,580	3,580	3,577					14,317
		10,300						10,300
708	3,540	1,122						8,202
			14,274					14,274
829	4,145	4,145	4,153					16,588
			11,390					11,390
393	1,965	1,965	557					6,452
225	1,385	1,900	2,600	3,175				10,075
513	2,358	1,916	1,307	463				8,713
180	391			6,358				7,549
410	1,929	1,905	1,905	1,621				9,508
225	1,380	1,885	2,595	3,155				10,005
512	2,350	1,901	1,283	431				8,636
290	1,765	2,405	3,240	3,865				12,545
608	2,762	2,227	1,504	523				10,210
248	1,477	1,960	2,602	3,454				10,606
548	2,505	2,017	1,373	516				9,282
82	514	743	1,072	1,549	2,238	3,976		10,505
748	3,634	3,405	3,074	2,599	1,909	742		19,929
					7,800			7,800
273	1,365	1,365	1,365	1,365	273			7,098

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—
REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description		2007	2008	2009	2010
2000 MF Series (Oaks at Hampton)	Principal	$ 68	$ 75	$ 82	$ 89
2000 MF Series (Oaks at Hampton)	Interest	710	703	696	689
2000 MF Series (Deerwood Apts)	Principal	85	95	95	105
2000 MF Series (Deerwood Apts)	Interest	387	383	377	372
2000 MF Series (Creek Point Apts)	Principal				
2000 MF Series (Creek Point Apts)	Interest	234	234	234	234
2000 MF Series A/B (Parks @ Westmoreland)	Principal	67	73	80	87
2000 MF Series A/B (Parks @ Westmoreland)	Interest	829	823	816	809
2000 MF Series (Honeycreek)	Principal	253	142	153	165
2000 MF Series (Honeycreek)	Interest	3,087	1,529	1,517	1,505
2000 MF Series A-C (Highland Meadow Apts)	Principal	145	155	166	177
2000 MF Series A-C (Highland Meadow Apts)	Interest	742	732	721	710
2000 MF Series A/B (Greenbridge)	Principal	211	109	127	137
2000 MF Series A/B (Greenbridge)	Interest	2,928	1,451	1,441	1,432
2000 MF Series A-C (Collingham Park)	Principal	172	182	208	230
2000 MF Series A-C (Collingham Park)	Interest	877	864	850	905
2000 MF Series A/B (Williams Run)	Principal	173	84	91	98
2000 MF Series A/B (Williams Run)	Interest	2,227	945	938	931
2000 MF Series A/B (Red Hills Villas)	Principal	54	59	65	71
2000 MF Series A/B (Red Hills Villas)	Interest	852	847	841	834
2001 MF Series (Bluffview Senior Apts)	Principal	55	59	64	69
2001 MF Series (Bluffview Senior Apts)	Interest	905	900	894	889
2001 MF Series (Knollwood Villas Apts)	Principal	71	77	82	89
2001 MF Series (Knollwood Villas Apts)	Interest	1,168	1,162	1,156	1,149
2001 MF Series (Skyway Villas)	Principal	130	145	155	160
2001 MF Series (Skyway Villas)	Interest	491	484	477	468
2001 MF Series A/B (Cobb Park)	Principal	38	42	46	51
2001 MF Series A/B (Cobb Park)	Interest	608	604	599	595
2001 MF Series (Greens Road Apts.)	Principal	110	120	130	135
2001 MF Series (Greens Road Apts.)	Interest	435	429	422	415
2001 MF Series A/B (Meridian Apts.)	Principal	175	185	200	215
2001 MF Series A/B (Meridian Apts.)	Interest	815	803	791	777
2001 MF Series A/B (Wildwood Apts.)	Principal	175	190	205	220
2001 MF Series A/B (Wildwood Apts.)	Interest	806	794	781	767
2001 MF Series A-C (Fallbrook Apts.)	Principal	193	206	220	235
2001 MF Series A-C (Fallbrook Apts.)	Interest	875	861	847	831
2001 MF Series (Oak Hollow Apts.)	Principal	37	40	43	46
2001 MF Series (Oak Hollow Apts.)	Interest	448	445	442	439
2001 MF Series A/B (Hillside Apts.)	Principal	69	75	83	90
2001 MF Series A/B (Hillside Apts.)	Interest	1,006	1,000	992	984
2002 MF Series (Millstone Apts.)	Principal	180	195	205	215
2002 MF Series (Millstone Apts.)	Interest	680	670	659	647
2002 MF Series (Sugar Creek Apts.)	Principal	105	80	85	90
2002 MF Series (Sugar Creek Apts.)	Interest	705	701	696	691
2002 MF Series (West Oaks Apts.)	Principal	70	57	62	66
2002 MF Series (West Oaks Apts.)	Interest	950	716	711	706
2002 MF Series (Park Meadows Apts)	Principal	60	60	70	65
2002 MF Series (Park Meadows Apts)	Interest	285	281	277	273
2002 MF Series (Clarkridge Villas Apts)	Principal	79	85	91	98
2002 MF Series (Clarkridge Villas Apts)	Interest	1,009	1,003	997	990
2002 MF Series (Hickory Trace Apts)	Principal	62	67	71	77
2002 MF Series (Hickory Trace Apts)	Interest	800	796	791	786
2002 MF Series (Green Crest Apts)	Principal	77	66	71	76
2002 MF Series (Green Crest Apts)	Interest	997	792	787	782
2002 MF Series A/B (Ironwood Crossing)	Principal	67	73	79	87
2002 MF Series A/B (Ironwood Crossing)	Interest	1,215	1,209	1,202	1,195

(Continued)

SCHEDULE 5

2011	2012-16	2017-21	2022-26	2027-31	2032-36	2037-41	2042-46	Total Required
$ 96	$ 601	$ 860	$ 1,231	$ 1,764	$ 2,525	$ 2,432	$ -	$ 9,823
681	3,288	3,030	2,659	2,126	1,364	330		16,276
115	120	1,305			4,240			6,160
365	1,775	1,687	1,355	1,355	410			8,466
					6,685			6,685
234	1,170	1,170	1,170	1,170	253			6,103
94	584	836	1,197	1,712	2,451	2,590		9,771
801	3,868	3,571	3,144	2,535	1,661	454		19,311
178	1,124	1,645	2,405	3,516	10,782			20,363
1,491	7,219	6,696	5,931	4,813	2,615			36,403
190	1,162	1,616	2,257	3,145	2,009			11,022
697	3,273	2,816	2,180	1,291	206			13,368
148	926	1,340	1,937	2,802	4,050	8,104		19,891
1,421	6,916	6,501	5,899	5,030	3,773	1,764		38,556
244	1,459	1,971	2,679	3,669	2,301			13,115
888	4,139	3,520	2,678	1,530	205			16,456
106	671	983	1,439	2,107	3,084	3,725		12,561
923	4,475	4,163	3,707	3,039	2,062	649		24,059
77	485	701	1,014	1,467	2,121	4,025		10,139
828	4,028	3,782	3,427	2,914	2,171	1,027		21,551
74	470	687	1,002	1,464	2,139	4,461		10,544
883	4,303	4,057	3,699	3,176	2,414	1,267		23,387
96	604	882	1,288	1,883	2,750	5,727		13,549
1,142	5,579	5,286	4,861	4,238	3,329	1,884		30,954
160	970	1,285	1,680	2,230	1,970			8,885
460	2,151	1,841	1,429	882	198			8,881
56	348	504	718	1,054	1,526	3,304		7,687
590	2,874	2,708	2,469	2,119	1,615	879		15,660
145	875	1,180	1,605	2,190	1,680			8,170
408	1,909	1,638	1,270	764	140			7,830
230	1,405	2,065	2,695	3,635	3,255			14,060
762	3,553	2,990	2,294	1,424	321			14,530
235	1,450	2,065	2,700	3,625	3,250			14,115
752	3,496	2,946	2,288	1,422	322			14,374
251	1,512	2,038	2,746	3,702	3,331			14,434
815	3,820	3,287	2,567	1,597	365			15,865
49	306	432	613	868	1,232	1,745	1,007	6,418
436	2,119	1,993	1,811	1,552	1,188	671	16	11,560
96	594	842	1,195	1,693	2,400	3,402	2,202	12,741
978	4,756	4,476	4,077	3,511	2,708	1,555	55	26,098
225	1,345	1,745	2,280	3,000	3,065			12,455
636	2,971	2,552	2,006	1,276	348			12,445
100	605	75					10,680	11,820
685	3,326	3,206	3,205	3,205	3,205	3,205	214	23,044
71	441	632	902	1,288	1,839	2,627	1,588	9,643
701	3,414	3,215	2,930	2,522	1,939	1,108	36	18,948
80	455	625	865	1,195	920			4,395
268	1,255	1,081	839	505	93			5,157
105	649	920	1,305	1,849	2,622	3,716	2,938	14,457
983	4,791	4,519	4,132	3,585	2,806	1,706	172	26,693
82	507	721	1,022	1,448	2,053	2,910	2,443	11,463
780	3,802	3,588	3,285	2,856	2,248	1,386	161	21,279
82	507	717	1,017	1,443	2,044	2,898	2,430	11,428
777	3,784	3,573	3,271	2,844	2,238	1,380	161	21,386
95	619	957	1,408	1,997	2,830	4,012	4,695	16,919
1,187	5,787	5,446	4,994	4,400	3,562	2,374	334	32,905

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—
REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description		2007	2008	2009	2010
2002 MF Series (Woodway Village Apts)	Principal	$ 100	$ 110	$ 115	$ 120
2002 MF Series (Woodway Village Apts)	Interest	397	392	386	380
2003 MF Series A/B (Reading Road)	Principal	120	120	220	130
2003 MF Series A/B (Reading Road)	Interest	394	391	386	380
2003 MF Series A/B (North Vista Apts)	Principal	200	210	215	230
2003 MF Series A/B (North Vista Apts)	Interest	694	685	676	666
2003 MF Series A/B (West Virginia Apts)	Principal	135	145	150	155
2003 MF Series A/B (West Virginia Apts)	Interest	469	463	456	450
2003 MF Series A/B (Sphinx @ Murdeaux)	Principal	160	165	170	180
2003 MF Series A/B (Sphinx @ Murdeaux)	Interest	1,993	1,998	2,005	2,013
2003 MF Series A/B (Primrose Houston School)	Principal	73	79	85	93
2003 MF Series A/B (Primrose Houston School)	Interest	1,102	1,096	1,090	1,083
2003 MF Series A/B (Timber Oaks Apts)	Principal	51	56	61	67
2003 MF Series A/B (Timber Oaks Apts)	Interest	930	925	920	915
2003 MF Series A/B (Ash Creek Apts)	Principal	73	80	86	94
2003 MF Series A/B (Ash Creek Apts)	Interest	1,095	1,089	1,082	1,075
2003 MF Series A/B (Peninsula Apts)	Principal	80	160	170	180
2003 MF Series A/B (Peninsula Apts)	Interest	645	639	632	623
2003 MF Series A (Evergreen @ Mesquite)	Principal	103	110	117	125
2003 MF Series A (Evergreen @ Mesquite)	Interest	751	744	737	729
2003 MF Series A/B (Arlington Villas)	Principal	46	74	80	87
2003 MF Series A/B (Arlington Villas)	Interest	1,179	1,174	1,167	1,161
2003 MF Series A/B (Parkview Townhomes)	Principal	73	79	86	94
2003 MF Series A/B (Parkview Townhomes)	Interest	1,119	1,112	1,105	1,098
2003 MF Series A (NHP-Asmara/Refunding)	Principal	335	360	380	400
2003 MF Series A (NHP-Asmara/Refunding)	Interest	751	739	725	713
2004 MF Series A/B (Timber Ridge)	Principal	32	34	37	39
2004 MF Series A/B (Timber Ridge)	Interest	451	449	446	444
2004 MF Series A/B (Century Park)	Principal	65	150	160	175
2004 MF Series A/B (Century Park)	Interest	700	693	685	676
2004 MF Series A (Addison Park)	Principal	60	70	75	80
2004 MF Series A (Addison Park)	Interest	506	504	501	499
2004 MF Series A/B (Veterans Memorial)	Principal	73	79	86	94
2004 MF Series A/B (Veterans Memorial)	Interest	1,094	1,088	1,081	1,073
2004 MF Series A (Rush Creek)	Principal	52	55	59	63
2004 MF Series A (Rush Creek)	Interest	668	664	660	656
2004 MF Series A (Humble Park)	Principal	90	100	110	110
2004 MF Series A (Humble Park)	Interest	770	764	757	749
2004 MF Series A (Chisholm Trail)	Principal	130	135	145	155
2004 MF Series A (Chisholm Trail)	Interest	431	427	421	416
2004 MF Series A (Evergreen @ Plano)	Principal	13	80	85	91
2004 MF Series A (Evergreen @ Plano)	Interest	966	962	957	951
2004 MF Series A (Montgomery Pines)	Principal	145	155	160	170
2004 MF Series A (Montgomery Pines)	Interest	442	438	431	426
2004 MF Series A (Bristol)	Principal	75	160	170	180
2004 MF Series A (Bristol)	Interest	456	452	445	439
2004 MF Series A (Pinnacle)	Principal	90	185	195	210
2004 MF Series A (Pinnacle)	Interest	523	519	511	504
2004 MF Series A (Tranquility Bay)	Principal	79	84	90	96
2004 MF Series A (Tranquility Bay)	Interest	929	923	918	912
2004 MF Series A (Sphinx @ Delafield)	Principal	95	100	110	110
2004 MF Series A (Sphinx @ Delafield)	Interest	593	588	583	577
2004 MF Series A (Churchill @ Pinnacle)	Principal		57	61	65
2004 MF Series A (Churchill @ Pinnacle)	Interest	704	702	698	694
2004 MF Series A/B (Post Oak East)	Principal	105	220	225	235
2004 MF Series A/B (Post Oak East)	Interest	502	497	488	480

(Continued)

SCHEDULE 5

2011	2012-16	2017-21	2022-26	2027-31	2032-36	2037-41	2042-46	Total Required
$ 130	$ 765	$ 1,025	$ 5,380	$ -	$ -	$ -	$ -	$ 7,745
374	1,766	1,543	493					5,731
230	1,170	1,530	2,030	2,860	3,790			12,200
374	1,771	1,560	1,276	888	362			7,782
245	1,395	1,820	2,410	3,140	4,135			14,000
656	3,100	2,700	2,165	1,465	545			13,352
165	935	1,225	1,620	2,130	2,790			9,450
443	2,092	1,823	1,465	990	366			9,017
185	1,075	1,365	1,735	2,195	2,800	3,585	1,260	14,875
2,022	7,428	3,049	2,684	2,213	1,608	826	64	27,903
101	645	962	1,361	1,895	11,330			16,624
1,075	5,236	4,923	4,535	4,013	3,235			27,388
73	478	738	1,135	1,624	2,274	3,183	3,409	13,149
909	4,430	4,166	3,767	3,277	2,623	1,709	330	24,901
101	650	958	1,344	1,883	11,083			16,352
1,067	5,194	4,889	4,509	3,980	3,003			26,983
190	1,135	1,530	8,955					12,400
614	2,917	2,573	1,357					10,000
133	809	1,112	1,530	2,104	2,710	1,100	1,006	10,959
720	3,452	3,140	2,708	2,116	1,301	627	106	17,131
95	604	905	1,323	1,868	2,636	9,382		17,100
1,153	5,635	5,335	4,920	4,383	3,629	158		29,894
102	664	1,002	1,409	1,958	2,721	3,781	4,586	16,555
1,089	5,292	4,954	4,545	3,993	3,227	2,161	518	30,213
430	2,550	3,425	4,585	6,150	3,010			21,625
699	3,250	2,742	2,064	1,154	141			12,978
42	261	369	521	739	4,626			6,700
441	2,157	2,051	1,903	1,690	1,372			11,404
185	1,095	1,510	2,080	2,825	3,840	915		13,000
666	3,164	2,813	2,335	1,679	787	23		14,221
90	555	820	1,225	1,795	2,660	3,940	2,630	14,000
496	2,424	2,304	2,126	1,860	1,469	890	147	13,726
102	663	980	1,364	1,895	2,634	3,662	4,634	16,266
1,065	5,171	4,853	4,466	3,932	3,189	2,157	543	29,712
67	413	578	806	1,126	1,573	2,197	3,007	9,996
652	3,182	3,019	2,787	2,466	2,017	1,390	369	18,530
120	730	1,025	1,425	1,955	2,710	3,325		11,700
742	3,576	3,291	2,894	2,341	1,582	537		18,003
165	995	1,380	1,890	2,595	3,555	855		12,000
410	1,949	1,735	1,438	1,033	477	14		8,751
97	591	819	1,137	1,577	2,186	3,029	5,045	14,750
945	4,619	4,387	4,069	3,629	3,016	2,166	700	27,367
180	1,090	1,455	1,955	2,630	3,520	840		12,300
419	1,988	1,759	1,454	1,041	492	16		8,906
190	1,140	1,525	2,030	2,700	3,605	850		12,625
433	2,049	1,809	1,491	1,065	502	14		9,155
220	1,315	1,750	2,330	3,100	4,130	975		14,500
497	2,351	2,075	1,708	1,222	573	20		10,503
102	625	863	1,195	1,651	2,282	3,157	4,107	14,331
905	4,413	4,172	3,840	3,382	2,747	1,868	536	25,545
120	710	925	1,220	1,595	2,090	2,645	1,610	11,330
572	2,759	2,556	2,291	1,930	1,454	836	134	14,873
70	428	591	819	1,137	1,576	2,184	3,762	10,750
690	3,370	3,204	2,976	2,656	2,214	1,602	553	20,063
245	1,415	1,775	2,230	2,810	3,530	810		13,600
471	2,210	1,920	1,556	1,096	517	21		9,758

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)—
REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description		2007	2008	2009	2010
2004 MF Series (Village Fair)	Principal	$ 50	$ 80	$ 85	$ 91
2004 MF Series (Village Fair)	Interest	915	910	905	899
2005 MF Series (Pecan Grove)	Principal	44	79	84	90
2005 MF Series (Pecan Grove)	Interest	911	831	902	896
2005 MF Series (Prairie Oaks)	Principal	34	62	66	71
2005 MF Series (Prairie Oaks)	Interest	718	714	710	706
2005 MF Series (Port Royal)	Principal	32	68	73	78
2005 MF Series (Port Royal)	Interest	792	789	784	779
2005 MF Series (Del Rio)	Principal	31	64	69	73
2005 MF Series (Del Rio)	Interest	746	743	738	734
2005 MF Series (Atascocita Pines)	Principal			143	152
2005 MF Series (Atascocita Pines)	Interest	434	435	431	426
2005 MF Series (Tower Ridge)	Principal			100	100
2005 MF Series (Tower Ridge)	Interest	545	546	544	541
2005 MF Series (Alta Cullen)	Principal		61	78	83
2005 MF Series (Alta Cullen)	Interest	924	922	917	912
2005 MF Series (Lafayette Village)	Principal			178	189
2005 MF Series (Lafayette Village)	Interest	514	515	511	505
2005 MF Series (Prairie Ranch)	Principal		150	115	125
2005 MF Series (Prairie Ranch)	Interest	592	589	583	577
2005 MF Series (St Augustine)	Principal			47	98
2005 MF Series (St Augustine)	Interest	279	279	278	275
2005 MF Series (Park Manor)	Principal			58	62
2005 MF Series (Park Manor)	Interest	830	666	664	660
2005 MF Series (Mockingbird)	Principal		80	85	91
2005 MF Series (Mockingbird)	Interest	919	916	911	905
2005 MF Series (Chase Oaks)	Principal	95	236	248	261
2005 MF Series (Chase Oaks)	Interest	719	709	697	684
2005 MF Series (Canal Place)	Principal				56
2005 MF Series (Canal Place)	Interest	609	610	609	608
2005 MF Series (Coral Hills)	Principal				
2005 MF Series (Coral Hills)	Interest	269	269	269	269
2006 MF Series (Harris Branch)	Principal				200
2006 MF Series (Harris Branch)	Interest	519	519	519	515
2006 MF Series (Bella Vista)	Principal		15	45	45
2006 MF Series (Bella Vista)	Interest	418	418	416	413
2006 MF Series (Village Park)	Principal			105	190
2006 MF Series (Village Park)	Interest	700	700	699	690
2006 MF Series (Oakmoor)	Principal			75	95
2006 MF Series (Oakmoor)	Interest	878	878	876	871
2006 MF Series (Sunset Pointe)	Principal				
2006 MF Series (Sunset Pointe)	Interest	519	519	519	519
2006 MF Series (Hillcrest)	Principal				175
2006 MF Series (Hillcrest)	Interest	653	653	653	647
2006 MF Series (Pleasant Village)	Principal		34	71	75
2006 MF Series (Pleasant Village)	Interest	365	365	361	356
2006 MF Series (Grove Village)	Principal		35	73	77
2006 MF Series (Grove Village)	Interest	376	376	371	367
Total Multifamily Bonds		78,346	73,456	74,430	75,036
Total		163,256	148,489	151,094	150,376
Less Interest		129,416	122,558	121,290	119,971
TOTAL PRINCIPAL		$ 33,840	$ 25,931	$ 29,804	$ 30,405

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

2011	2012-16	2017-21	2022-26	2027-31	2032-36	2037-41	2042-46	Total Required
$ 97	$ 590	$ 817	$ 1,130	$ 1,561	$ 2,160	$ 2,985	$ 4,454	$ 14,100
893	4,359	4,131	3,817	3,384	2,781	1,951	679	25,624
96	584	808	1,118	1,544	2,138	2,956	4,489	14,030
890	4,343	4,120	3,810	3,382	2,792	1,974	723	25,574
75	461	636	880	1,217	1,683	2,328	3,537	11,050
700	3,418	3,241	2,997	2,659	2,189	1,542	548	20,142
83	505	698	965	1,336	1,848	2,555	3,959	12,200
774	3,777	3,583	3,315	2,941	2,427	1,716	627	22,304
78	476	658	909	1,258	1,742	2,406	3,726	11,490
729	3,558	3,374	3,121	2,770	2,286	1,617	590	21,006
162	971	1,313	1,781	2,420	3,304	1,654		11,900
420	2,000	1,791	1,509	1,126	603	51		9,226
100	500	1,100	1,800	2,600	3,800	4,900		15,000
537	2,631	2,494	2,236	1,835	1,263	256		13,428
89	544	756	1,050	1,460	2,028	2,819	5,032	14,000
906	4,431	4,218	3,922	3,509	2,938	2,144	867	26,610
200	1,197	1,602	2,143	2,870	3,841	1,880		14,100
498	2,368	2,114	1,775	1,321	717	72		10,910
125	750	965	1,260	1,610	2,020	2,555	2,525	12,200
571	2,755	2,551	2,288	1,942	1,511	965	284	15,208
104	624	839	1,128	1,513	2,033	1,264		7,650
271	1,292	1,157	977	735	409	50		6,002
66	400	550	757	1,042	1,432	1,971	4,062	10,400
656	3,209	3,058	2,852	2,567	2,177	1,637	781	19,757
97	588	809	1,113	1,532	2,109	2,902	4,954	14,360
899	4,392	4,170	3,863	3,444	2,864	2,067	870	26,220
275	1,601	2,059	9,475					14,250
671	3,127	2,668	1,156					10,431
81	519	777	1,088	1,497	2,059	10,023		16,100
604	2,945	2,777	2,596	2,359	2,035	911		16,663
						5,320		5,320
269	1,345	1,345	1,345	1,345	1,345	505		8,575
200	1,300	1,600	2,200	3,000	3,900	2,600		15,000
508	2,420	2,174	1,843	1,400	805	120		11,342
45	285	385	530	710	970	1,320	2,450	6,800
411	2,005	1,903	1,763	1,576	1,320	973	483	12,099
190	1,120	1,495	1,985	8,575				13,660
680	3,238	2,907	2,465	110				12,189
101	607	819	1,104	1,491	2,011	2,713	5,619	14,635
865	4,221	4,008	3,721	3,333	2,811	2,106	1,089	25,657
						15,000		15,000
519	2,595	2,595	2,595	2,595	2,595	1,489		17,059
160	960	1,300	1,770	425		7,645		12,435
638	3,048	2,751	2,347	2,013	2,005	1,038		16,446
80	479	650	4,611					6,000
351	1,676	1,505	543					5,522
82	493	669	4,751					6,180
362	1,728	1,550	421					5,551
75,183	372,631	378,980	435,559	352,939	348,328	250,465	120,536	2,635,889
148,992	742,470	772,788	834,588	759,405	693,755	279,877	120,536	4,965,626
118,508	565,006	504,664	420,858	303,220	163,324	63,167	12,690	2,644,672
$ 30,484	$ 177,464	$ 268,124	$ 413,730	$ 456,185	$ 530,431	$ 216,710	$ 107,846	$ 2,320,954

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 6

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS
AS OF AUGUST 31, 2006
(Amounts in thousands)

	Pledged and Other Sources and Related Expenditures for FY 2006			
	Net Available for Debt Service		Debt Service	
Description of Issue	**Total Pledged and Other Sources**	**Operating Expenses/ Expenditures and Capital Outlay**	**Principal**	**Interest**
1995 Single Family Series A	$ 30,459	$ 18	$ -	$ 475
1995 Single Family Series C	12,917	13		244
1996 Single Family Series A	9,645	53		352
1996 Single Family Series D	29,854	79		1,350
1996 Single Family Series E	21,499	59	1,230	950
1997 Single Family Series A	1,963	66		1,750
1997 Single Family Series B	6,630	1		126
1997 Single Family Series D	5,179	105		864
1997 Single Family Series F	5,625			118
2002 Single Family Series A	1,960	61		2,063
2002 Single Family Series A Junior Lien	1,055	20		682
2002 Single Family Series B	6,176	70		2,425
2002 Single Family Series C	612	19	450	573
2002 Single Family Series D	711	10	910	286
2004 Single Family Series A	5,887	336		5,489
2004 Single Family Series A (Junior Lien)	101	15		190
2004 Single Family Series B	2,193	144		1,723
2004 Single Family Series C	4,008	108		1,897
2004 Single Family Series D	1,456	96		1,153
2004 Single Family Series E	782	30		379
2005 Single Family Series A	3,883	315		3,222
2005 Single Family Series B	1,929	23		1,043
2005 Single Family Series C	655	8		115
2005 Single Family Series D	375	3		44
2006 Single Family Series A	595	4		521
2006 Single Family Series B	709	5		617
2006 Single Family Series C	1,049	8		945
2006 Single Family Series D	312	2		234
2006 Single Family Series E	170	1		123
Total Single Family Bonds	158,389	1,672	2,590	29,953
1998 RMRB Series A	8,355	147	1,295	2,558
1998 RMRB Series B	976	26		443
1999 RMRB Series A	1,770	23		371
1999 RMRB Series B-1	6,417	46		1,855
1999 RMRB Series C	894	7		261
2000 RMRB Series A	4,393	52	270	1,262
2000 RMRB Series B	11,983	67		3,436
2000 RMRB Series C	1,243	10		538
2000 RMRB Series D	1,565	10	595	455
2001 RMRB Series A	5,420	26	695	2,106
2001 RMRB Series B	1,038	9		644
2001 RMRB Series C	2,466	8	1,270	563
2001 RMRB Series D	37			13
2002 RMRB Series A	6,052	39	635	1,940
2003 RMRB Series A	4,623	88	1,180	3,388
Total Residential Mtg Revenue Bonds	57,232	558	5,940	19,833
1992 Coll Home Mtg Rev Bds Series C	$ 7,116	$ 20	$ -	$ 1,232

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS
AS OF AUGUST 31, 2006
(Amounts in thousands)

	Pledged and Other Sources and Related Expenditures for FY 2006			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
Total Coll Home Mtg Revenue Bonds	7,116	20	-	1,232
1994 SF MRB CHMRB Series C	3,651	45		180
Total Single Family MRB 1994 CHMRB	3,651	45	-	180
1987 MF Series (South Texas Rental Housing)	109		77	70
1993 MF Series A&B (RemHill/HighPt Ref)	365	5		360
1996 MF Series A/B (Braxton's Mark)	857	3		841
1996 MF Series A/B (Brighton's Mark)	1,356	2		502
1996 MF Series A/B (Las Colinas)	2,122	4		757
1996 MF Series A/B (NHP Foundation)				
1996 MF Series A-D (Harbors/Plumtree)	11,764		255	659
1998 MF Series A (Dallas Oxford Refndg)	719			715
1998 MF Series (Greens of Hickory Trail)	674		210	674
1998 MF Series (Pebble Brook)	560		170	560
1998 MF Series A (Volente Project)	563		165	563
1998 MF Series A-C (Residence Oaks)	456		134	456
1999 MF Series (Woodglen Village)	775			775
1999 MF Series A-C (Mayfield)	609		187	609
2000 MF Series (Creek Point Apts)	318			218
2000 MF Series (Deerwood Apts)	391		85	391
2000 MF Series (Honeycreek)	1,553			1,553
2000 MF Series (Oaks at Hampton)	715		62	715
2000 MF Series (Timber Point Apts)	354			254
2000 MF Series A/B (Greenbridge)	1,478			1,478
2000 MF Series A/B (Parks @ Westmoreland)	710		61	710
2000 MF Series A/B (Red Hills Villas)	758		49	758
2000 MF Series A/B (Williams Run)	956		16	956
2000 MF Series A-C (Collingham Park)	890		162	890
2000 MF Series A-C (Highland Meadow Apts)	744		137	744
2001 MF Series (Bluffview Senior Apts)	805		51	805
2001 MF Series (Greens Road Apts.)	441		105	441
2001 MF Series (Knollwood Villas Apts)	1,033		66	1,033
2001 MF Series (Oak Hollow Apts.)	2,165		39	499
2001 MF Series (Skyway Villas)	4,692		160	609
2001 MF Series A/B (Cobb Park)	582		35	574
2001 MF Series A/B (Hillside Apts.)	900		63	900
2001 MF Series A/B (Meridian Apts.)	826		160	826
2001 MF Series A/B (Wildwood Apts.)	790		165	790
2001 MF Series A-C (Fallbrook Apts.)	888		180	888
2002 MF Series (Clarkridge Villas Apts)	1,029		74	1,014
2002 MF Series (Green Crest Apts)	1,809		44	818
2002 MF Series (Hickory Trace Apts)	1,182		59	819
2002 MF Series (Millstone Apts.)	690		165	690
2002 MF Series (Park Meadows Apts)	393		55	293
2002 MF Series (Sugar Creek Apts.)	719		35	710
2002 MF Series (West Oaks Apts.)	690		33	690
2002 MF Series (Woodway Village Apts)	$ 1,697	$ -	$ 90	$ 423
2002 MF Series A/B (Ironwood Crossing)	1,237		51	1,220

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 6

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS
AS OF AUGUST 31, 2006
(Amounts in thousands)

	Pledged and Other Sources and Related Expenditures for FY 2006			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2003 MF Series A (Evergreen @ Mesquite)	792		41	789
2003 MF Series A/B (Ash Creek Apts)	1,076		12	1,062
2003 MF Series A/B (North Vista Apts)	713			699
2003 MF Series A/B (Peninsula Apts)	648			647
2003 MF Series A/B (Primrose Houston School)	1,443		6	1,156
2003 MF Series A/B (Reading Road)	478			465
2003 MF Series A/B (Sphinx @ Murdeaux)	746		140	731
2003 MF Series A/B (Timber Oaks Apts)	948		47	934
2003 MF Series A/B (West Virginia Apts)	482			472
2004 MF Series A (Bristol)	411			411
2004 MF Series A (Chisholm Trail)	394			391
2004 MF Series A (Churchill @ Pinnacle)	646			646
2004 MF Series A (Evergreen @ Plano)	902			902
2004 MF Series A (Humble Park)	772			772
2004 MF Series A (Montgomery Pines)	401			401
2004 MF Series A (Pinnacle)	472			472
2004 MF Series A (Rush Creek)	680		4	670
2004 MF Series A (Sphinx @ Delafield)	596		50	596
2004 MF Series A (Tranquility Bay)	889		19	885
2004 MF Series A (Addison Park)	495			481
2004 MF Series A/B (Century Park)	714			701
2004 MF Series A/B (Post Oak East)	452			452
2004 MF Series A/B (Timber Ridge)	1,310			502
2004 MF Series A/B (Veterans Memorial)	1,116		34	1,100
2003 MF Series A/B (Parkview Townhomes)	1,141		45	1,125
2003 MF Series A/B (Arlington Villas)	1,065			1,065
2003 MF Series A (NHP-Asmara/Refunding)	11,627			767
2004 MF Series (Village Fair)	723			723
2005 MF Series (Pecan Grove)	737			737
2005 MF Series (Prairie Oaks)	557			557
2005 MF Series (Port Royal)	625			625
2005 MF Series (Del Rio)	589			589
2005 MF Series (Atascocita Pines)	391			391
2005 MF Series (Tower Ridge)	495			495
2005 MF Series (Alta Cullen)	824			824
2005 MF Series (Lafayette Village)	463			463
2005 MF Series (Prairie Ranch)	592			592
2005 MF Series (St Augustine)	249			249
2005 MF Series (Park Manor)	520			520
2005 MF Series (Mockingbird)	919			919
2005 MF Series (Chase Oaks)	720			720
2005 MF Series (Canal Place)	522			522
2005 MF Series (Coral Hills)	191			191
2006 MF Series (Harris Branch)	261			261
2006 MF Series (Bella Vista)	167			167
2006 MF Series (Village Park)	268			268
2006 MF Series (Oakmoor)	287			287
2006 MF Series (Sunset Pointe)	$ 75	$ -	$ -	$ 75
2006 MF Series (Hillcrest)	51			51
2006 MF Series (Pleasant Village	1			1

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 6

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS
AS OF AUGUST 31, 2006
(Amounts in thousands)

	Pledged and Other Sources and Related Expenditures for FY 2006			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2006 MF Series (Grove Village)	1			1
Total Multifamily Bonds	94,001	14	3,798	59,772
TOTAL	$ 320,389	$ 2,309	$ 12,328	$ 110,970

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 7

MISCELLANEOUS BOND INFORMATION—DEFEASED BONDS OUTSTANDING
AS OF AUGUST 31, 2006
(Amounts in thousands)

Description of Issue	Year Refunded	Par Value Outstanding
Business-type activities		
1996 MF SERIES A/B (NHP FOUNDATION)	2003	$ 24,525,000
1996 Single Family Series A	2006	5,765,000
1996 Single Family Series D	2006	23,920,000
1996 Sinlge Family Series E	2006	17,295,000
TOTAL BUSINESS-TYPE ACTIVITIES		$ 71,505,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

SCHEDULE 8

MISCELLANEOUS BOND INFORMATION—EARLY EXTINGUISHMENT AND REFUNDING
AS OF AUGUST 31, 2006

			For Refunding Only		
Description of Issue	**Category**	**Amount Extinguished or Refunded**	**Refunding Issue Par Value**	**Cash Flow Increase (Decrease)**	**Economic Gain/ (Loss)**
Business-Type Activities:					
1995 Single Family Series A	Early Extinguishment	$ 4,255,000	$ -	$ -	$ -
1995 Single Family Series A	Refunding	25,495,000	25,495,000	12,849,130	6,821,330
1995 Single Family Series C	Early Extinguishment	4,235,000			
1995 Single Family Series C	Refunding	8,680,000	8,970,000	713,188	1,655,787
1996 Single Family Series A	Early Extinguishment	3,110,000			
1996 Single Family Series A	Advance Refunding	5,765,000	5,765,000	2,290,985	1,691,495
1996 Single Family Series D	Early Extinguishment	4,855,000			
1996 Single Family Series D	Advance Refunding	23,920,000	23,920,000	9,766,831	7,211,112
1996 Single Family Series E	Early Extinguishment	3,390,000			
1996 Single Family Series E	Advance Refunding	17,295,000	17,295,000	3,951,520	2,808,982
1997 Single Family Series B	Early Extinguishment	6,590,000			
1997 Single Family Series D	Early Extinguishment	3,350,000			
1997 Single Family Series F	Early Extinguishment	5,625,000			
2002 Single Family Series A (Junior Lien)	Early Extinguishment	860,000			
2002 Single Family Series A	Early Extinguishment	85,000			
2002 Single Family Series B	Early Extinguishment	4,005,000			
2002 Single Family Series C	Early Extinguishment	20,000			
2002 Single Family Series D	Early Extinguishment	415,000			
2004 Single Family Series A	Early Extinguishment	770,000			
2004 Single Family Series C	Early Extinguishment	2,375,000			
2004 Single Family Series E	Early Extinguishment	320,000			
2005 Single Family Series A	Early Extinguishment	30,000			
2005 Single Family Series B	Early Extinguishment	965,000			
2005 Single Family Series C	Early Extinguishment	310,000			
2005 Single Family Series D	Early Extinguishment	245,000			
1998 RMRB Series A	Early Extinguishment	5,375,000			
1998 RMRB Series B	Early Extinguishment	450,000			
1999 RMRB Series A	Early Extinguishment	1,070,000			
1999 RMRB Series B-1	Early Extinguishment	4,450,000			
1999 RMRB Series C	Early Extinguishment	600,000			
2000 RMRB Series A	Early Extinguishment	3,050,000			
2000 RMRB Series B	Early Extinguishment	8,275,000			
2000 RMRB Series C	Early Extinguishment	665,000			
2000 RMRB Series D	Early Extinguishment	1,035,000			
2001 RMRB Series A	Early Extinguishment	3,175,000			
2001 RMRB Series B	Early Extinguishment	290,000			
2001 RMRB Series C	Early Extinguishment	1,755,000			
2002 RMRB Series A	Early Extinguishment	4,245,000			
2003 RMRB Series A	Early Extinguishment	1,325,000			
1992 Coll Home Mtg Rev Bonds, Series C	Early Extinguishment	5,700,000			
1994 SF MRB CHMRB Series C	Early Extinguishment	3,500,000			
1996 MF Series A/B (Las Colinas)	Early Extinguishment	2,199,512			
1996 MF Series A-D (Harbors/Plumtree)	Early Extinguishment	11,105,000			
2000 MF Series A (Timber Point Apts)	Early Extinguishment	100,000			
2000 MF Series A (Creek Point Apts)	Early Extinguishment	100,000			
2001 MF Series A (Skyway Villas)	Early Extinguishment	4,070,000			
2001 MF Series A (Oak Hollow Apts)	Early Extinguishment	1,665,933			
2002 MF Series A (Park Meadows Apts)	Early Extinguishment	100,000			
2002 MF Series A (Hickory Trace Apts)	Early Extinguishment	351,582			
2002 MF Series A (Green Crest Apts)	Early Extinguishment	978,737			
2002 MF Series A (Woodway Village Apts)	Early Extinguishment	1,265,000			
2003 MF Series A/B (Primerose Houston School)	Early Extinguishment	270,000			
2003 MF Series A/B (Ash Creek Apts)	Early Extinguishment	11,519			
2003 MF Series A (NHP-Asmara) Refunding	Early Extinguishment	9,875,000			
2004 MF Series A/B (Timber Ridge)	Early Extinguishment	800,000			
TOTAL BUSINESS-TYPE ACTIVITIES		$ 204,817,283	$81,445,000	$29,571,654	$20,188,706

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APPENDIX D-2

SELECTED UNAUDITED CONDENSED FINANCIAL INFORMATION OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FOR THE 6-MONTH PERIOD ENDED

FEBRUARY 28, 2007

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
For the Sixth Period Ending February 28, 2007
(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	$ 1,112,398	$ 397,796	$	$ 33,259,360	$	$	$	$ 9,371	$ 34,778,925
Investments	23,807,489	9,761,755	550,865	24,711	70		164,595	388,383	34,697,868
Rebate Adjustment									0
Real Estate Owned									0
Total Interest Revenue	24,919,887	10,159,551	550,865	33,284,071	70	0	164,595	397,754	69,476,793
Interest Expense:									
Interest on Bonds	21,236,866	9,150,739	494,546	33,259,366					64,141,517
Interest on Commercial Paper							200,226		200,226
Net Interest Revenue	3,683,021	1,008,812	56,319	24,705	70	0	(35,631)	397,754	5,135,050
Other Revenue:									
Commitment Fees	55,121	56,948	18,582	8,016					138,667
Other	210	99,564		36,875				1,630,042	1,766,691
Total Other Revenue	55,331	156,512	18,582	44,891	0	0	0	1,630,042	1,905,358
Other Expenses:									
Amortization and Write-Off of Deferred Issuance Costs	229,121	102,744	1,686	7,196					340,747
Mortgage Loan Servicing Fees	40,849	14,049						4,200	59,098
Trustee Fees	87,927	35,347	2,208	137	21	108	1,418	4,515	131,681
Grant Expense	5,171,294							146,869	5,318,163
Mortgage Pool & Self Insurance	223,944								223,944
Provision for Estimated Losses on Loans	5,000	2,000							7,000
Other	215,168	9,818	15				5,916	35,990	266,907
General and Administrative								2,730,337	2,730,337
Total Other Expenses	5,973,303	163,958	3,909	7,333	21	108	7,334	2,921,911	9,077,877
Operating Income (Loss)	(2,234,951)	1,001,366	70,992	62,263	49	(108)	(42,965)	(894,115)	(2,037,469)
Gain (Loss) on Early Extinguishment of Debt	(90,835)	77,781							(13,054)
Net Increase (Decrease) in Fair Value of Investments	4,587,375	3,039,227	82,518						7,709,120
Operating Transfers, net	(724,178)	(333,870)	(579)	205	(8,033)	40	52,300	1,811,143	797,028
Net Income (Loss)	$ 1,537,411	$ 3,784,504	$ 152,931	$ 62,468	$ (7,984)	$ (68)	$ 9,335	$ 917,028	$ 6,455,625
Restricted fund balance, beginning of period	17,209,238	5,351,672	1,354,776	(205,929)	9,715	65	810	16,544,214	40,264,561
Equity Transfers									
RESTRICTED FUND BALANCE, END OF PERIOD	$ 18,746,649	$ 9,136,176	$ 1,507,707	$ (143,461)	$ 1,731	$ (3)	$ 10,145	$ 17,461,242	$ 46,720,186

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at February 28, 2007
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds	Combined Totals
ASSETS									
Cash	$ 232,582	$ 1	$ 1,956	$ 1,350,086	$	$	$	$ 173,593	$ 1,758,218
Cash Equivalents	61,148,541	4,727,685	579,019	52,109,143			15,090,430	13,953,848	147,608,666
Investments, fair value	231,203,718	18,820,475	609,974	84,676,846					335,311,013
Mortgage-backed securities, fair value	662,403,121	313,759,169	14,331,677	38,281,920					1,028,775,887
Loans Receivable, net	44,663,036	1,652,567		1,185,157,726				3,317,689	1,234,791,018
Real Estate Owned, net	126,201	(1,692)						2,260	126,769
Notes Receivable									0
Accrued Interest Receivable	3,119,299	2,037,169	87,097	16,299,498			94,400	19,529	21,656,992
Deferred Issuance Costs, net	8,306,781	2,913,211	111,616	640,448					11,972,056
Other Assets	3,146	15,423			1,736	(3)		611,702	632,004
TOTAL ASSETS	$ 1,011,206,425	$ 343,924,008	$ 15,721,339	$ 1,378,515,667	$ 1,736	$ (3)	$ 15,184,830	$ 18,078,621	$ 2,782,632,623
LIABILITIES AND FUND BALANCES									
Bonds Payable	$ 963,514,835	$ 328,109,603	$ 13,719,826	$ 1,185,535,875	$	$	$	$	$ 2,490,880,139
Commercial Paper Notes Payable							15,039,000		15,039,000
Accrued Interest Payable	21,301,476	2,954,956	88,656	16,450,368	5		83,182		40,878,643
Accounts Payable and Other Accrued Expenses	8,228	4,675						568,544	581,447
Deferred Revenue									0
Other Liabilities	7,635,237	3,718,598	405,150	176,672,885			52,503	48,835	188,533,208
TOTAL LIABILITIES	992,459,776	334,787,832	14,213,632	1,378,659,128	5	0	15,174,685	617,379	2,735,912,437
Restricted Fund Balance	18,746,649	9,136,176	1,507,707	(143,461)	1,731	(3)	10,145	17,461,242	46,720,186
TOTAL LIABILITIES AND FUND BALANCES	$ 1,011,206,425	$ 343,924,008	$ 15,721,339	$ 1,378,515,667	$ 1,736	$ (3)	$ 15,184,830	$ 18,078,621	$ 2,782,632,623

APPENDIX E

FORM OF PROPOSED OPINION OF BOND COUNSEL

[LETTERHEAD OF BOND COUNSEL]

[Closing Date]

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 Variable Rate Mortgage Revenue Bonds, 2007 Series A (the "Series 2007A Bonds"). The Series 2007A Bonds shall bear interest from the date of delivery thereof. Interest on the Series 2007A Bonds is payable September 1, 2007, and semiannually thereafter on each March 1 and September 1, and as further provided in the Fifty-Fourth Supplemental Indenture mentioned below, until maturity or prior redemption. The Series 2007A Bonds are issuable only as fully registered bonds without coupons in denominations of $100,000 and any integral multiple of $5,000 in excess of $100,000. The Series 2007A Bonds are being issued in the principal amount, bear interest at the rates and mature on the date as provided in the Indenture mentioned below. The Series 2007A 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 2007A BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on March 20, 2007 (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, The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented (collectively, the "Single Family Indenture"), and a Fifty-Fourth Supplemental Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2007 (the "Fifty-Fourth Supplemental Indenture") relating to the Series 2007A Bonds. The Single Family Indenture and the Fifty-Fourth Supplemental Indenture are referred to herein collectively as the "Indenture". The Series 2007A Bonds are being issued for the purposes of (i) providing funds to make and acquire Mortgage Loans, funding capitalized interest, providing down payment and closing cost assistance and paying a portion of the costs of issuance of the Series 2007A Bonds and (ii) refunding the Department's outstanding Single-Family Mortgage Revenue Bonds, 1997 Series A and Single Family Mortgage Revenue Bonds, 1997 Series D. 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 2007A Bonds upon the terms and conditions set forth in the Single Family Indenture. The Department reserves the right in the Single Family Indenture to issue other bonds of the Department under the Single Family Indenture for other programs similar to the program initially funded with the proceeds of the Series 2007A Bonds or funds made available through the issuance of the Series 2007A Bonds and to refund bonds issued under the Single Family Indenture, and further reserves the right to issue bonds payable from the pledges and assignments in trust pursuant to the Single Family Indenture that are junior or subordinate to the Series 2007A Bonds, all as provided in the Single Family 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 2007A Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2007A 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 2007A 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 2007A 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.

WE HAVE ASSUMED 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 AND SUBJECT TO THE ASSUMPTIONS, QUALIFICATIONS AND LIMITATIONS SET FORTH HEREIN, IT IS OUR OPINION THAT, UNDER EXISTING LAW:

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 Fifty-Fourth Supplemental Indenture; to perform its obligations under the Indenture; and to issue and sell the Series 2007A 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 Fifty-Fourth Supplemental Indenture. 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 2007A Bonds. We draw your attention to the fact that the Series 2007A Bonds are secured on a parity basis with the

Department's 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; Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B; Single Family Mortgage Revenue Bonds, 2004 Series C; Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D; Single Family Mortgage Revenue Refunding Bonds, 2004 Series E; Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2005 Series A; Single Family Mortgage Revenue Refunding Bonds, 2005 Series B; Taxable Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2005 Series C; Single Family Mortgage Revenue Bonds, 2005 Series D; Single Family Mortgage Revenue Refunding Bonds, 2006 Series A; Single Family Mortgage Revenue Refunding Bonds, 2006 Series B; Single Family Mortgage Revenue Bonds, 2006 Series C; Single Family Mortgage Revenue Refunding Bonds, 2006 Series D; Single Family Mortgage Revenue Refunding Bonds, 2006 Series E; Single Family Mortgage Revenue Bonds, 2006 Series F; Single Family Mortgage Revenue Refunding Bonds, 2006 Series G and Single Family Variable Rate Mortgage Revenue Bonds, 2006 Series H, all issued under the Single Family Indenture. 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 Series 2007A Bonds. The Department has also granted security interests on a subordinate basis to the swap providers and the liquidity providers for certain of the foregoing bonds.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2007A Bonds. The authorized officers of the Department have duly executed the Series 2007A Bonds and the Trustee has duly authenticated the Series 2007A Bonds, to the extent required by the Indenture, and delivered the Series 2007A Bonds to the initial purchasers thereof. The Series 2007A Bonds constitute legal, valid and binding limited obligations of the Department and are entitled to the benefit and security of the Indenture.

4. The Series 2007A 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 2007A 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. Interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes under existing law.

6. Interest on the Series 2007A 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 5 and 6 above with respect to the Series 2007A 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 2007A 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 2007A Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Fifty-Fourth Supplemental Indenture upon the advice or with an approving opinion of nationally recognized bond counsel. We express no opinion with respect to our ability to render an opinion that such actions, if taken or omitted, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2007A Bonds.

THE ENFORCEABILITY of certain provisions of the Series 2007A Bonds 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 2007A Bonds may be limited by general principles of equity that permit the exercise of judicial discretion.

HOLDERS OF THE SERIES 2007A BONDS should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, 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 2007A Bonds.

THE OPINIONS SET FORTH ABOVE speak only as of their date and only in connection with the Series 2007A Bonds and may not be applied to any other transaction. Such opinions are specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America.

OUR OPINIONS are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2007A 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 Fifty-Fourth Supplemental Indenture 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 2007A Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

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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 February 28, 2007, 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[1]	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates Originated	Mortgage Loans / Certificates Outstanding	
1980 A	$ 150,000,000	$ 0	11.20 %	$ 135,128,160	$ 1,482,481	
1982 A	100,000,000	0	13.93	14,212,374	16,321	
1983 A	238,800,000	0	10.79	216,279,114	3,391,604	
1984 A/B	304,200,000	0	12.10/9.75	171,587,864	1,934,639	
1985 A	200,000,000	0	9.75	118,045,235	3,447,961	
1985 B	123,996,157	0	9.70/9.55	29,176,707	1,083,001	
1985 C	30,000,000	0	8.20	27,726,028	1,191,054	
1986 A	83,425,000	0	8.70	73,526,184	2,696,924	
1986 B	90,280,000	0	7.99/7.90	82,298,613	4,058,348	
1987 A	14,840,000	0	---	0	0	
1987 B	77,700,000	0	7.99/8.05/8.70	69,445,860	1,571,244	
1991 A	81,605,000	0	---	0	0	
1995 A-1, B-1, C-1	167,125,000	0	6.65	98,309,227	1,154,061	
1996 A, B, C	59,140,000	0	5.95*	19,273,572	0	
1996 D, E	169,490,000	0	6.75	92,277,298	0	
1997 A, B, C	79,500,000	28,960,000	5.95*	78,969,869	26,041,047	
1997 D, E, F	85,090,000	12,315,000	5.95*	66,463,700	23,581,383	
2002 A, B, C, D	118,000,000	96,865,000	4.99*	100,082,672	83,735,536	
2004 A, B	176,610,000	172,645,000	4.99/5.50	173,197,081	164,588,865	
2004 C, D, E, F	175,070,000	82,840,000	4.99/6.10-7.10	123,310,853	75,147,841	(2)
2005 A	100,000,000	99,895,000	4.99	92,950,215	90,289,031	
2005 B, C, D	38,195,000	34,095,000	4.99	0	20,200,273	(3)
2006 A, B, C, D, E	282,430,000	281,580,000	5.875/5.625/6.125	135,840,336	163,351,117	(4)
2006 F, G, H	132,195,000	132,195,000	5.65/5.99/6.20	15,273,364	15,264,903	
TOTAL	$ 3,077,691,157	$941,390,000		$ 1,933,374,327	$ 684,227,634	

* Reflects Buydown Rates.

(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.

The Single Family Mortgage Revenue Bonds 2004 Series C and the Single Family Variable Rate Mortgage Revenue Bonds 2004 Series D were issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates. The proceeds of the Single Family Mortgage Revenue Refunding Bonds 2004 Series E were used to refund and redeem all of the Department's outstanding Collateralized Home Mortgage Revenue Bonds Series 1993A, Series 1993B, Series 1993C, Series 1993D and Series 1993E. The Single Family Mortgage Revenue Bonds 2004 Series F are interim rate bonds and were redeemed at par, as a whole, on July 15, 2005 from the proceeds of the Series 2005A Bonds.

The Single Family Variable Rate Mortgage Revenue Refunding Bonds 2005 Series A refunded a portion of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A and the Department's Single Family Mortgage Revenue Bonds 2004 Series F.

The Single Family Mortgage Revenue Refunding Bonds 2005 Series B refunded and redeemed all outstanding Single Family Mortgage Revenue Bonds 1995 Series A-1. The Taxable Single Family Variable Rate Mortgage Revenue Refunding Bonds 2005 Series C refunded and redeemed all outstanding Taxable Single Family Mortgage Revenue Refunding Bonds 1995 Series C-1. The Single Family Mortgage Revenue Bonds 2005 Series D provided funds for the purchase of mortgage-backed, pass-through certificates, provided funds for the refunding of the 1995 Series A-1 Bonds, and provided a portion of the costs of issuance of the Series B/D Bonds.

The Single Family Mortgage Revenue Refunding Bonds 2006 Series A refunded the Department's outstanding Single Family Mortgage Revenue Tax-Exempt Commercial Paper Notes, Series C. The Single Family Mortgage Revenue Refunding Bonds 2006 Series B refunded the Department's outstanding Single Family Mortgage Revenue Tax-Exempt Commercial Paper Notes, Series A. The Single Family Mortgage Revenue Bonds 2006 Series C were issued for the primary purpose of providing funds for the purchase of mortgage certificates. The Single Family Mortgage Revenue Refunding Bonds 2006 Series D were issued to refund and redeem all of the Department's outstanding Single Family Mortgage Revenue Bonds, 1996 Series A and outstanding Single Family Mortgage Revenue Bonds, 1996 Series D.

The Single Family Mortgage Revenue Refunding Bonds 2006 Series E was issued to refund and redeem all of the Department's outstanding Single Family Mortgage Revenue Bonds, 1996 Series E.

The Single Family Mortgage Revenue Bonds 2006 Series F and the Single Family Variable Rate Mortgage Revenue Bonds 2006 Series H were issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 2006 Series G were issued to refund the Department's outstanding Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A.

(2) Includes outstanding balances on SFCHMRB 1993A-E transferred mortgage certificates and new certificates.

(3) Includes outstanding balances on Single Family 1995A-1/B-1 transferred mortgage certificates.

(4) Includes outstanding balances on Single Family 1996ABC and 1996DE transferred mortgage certificates.

1994 Junior Lien Trust Indenture

Series(5)	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Certificates Originated	Mortgage Certificates Outstanding(6)
1994 A	$ 35,000,932	$ -	5.95/6.65/6.75%	$ 11,354,583	$ 4,864,272
1994 B	55,995,000	-	5.95	2,784,029	1,445,154
2002 A	10,000,000	7,780,000		-	-
2004 A	4,140,000	4,140,000		-	-
TOTAL	$ 105,135,932	$ 11,920,000		$ 14,138,612	$ 6,309,427

(5) 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.

(6) 2002 Series A and 2004 Series A loan balances are not included in the table above because debt service is not dependent on loan repayments.

Portfolio Mortgage Loans

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

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Prior Mortgage Loans
Conventional	473	$ 11,227,197	53.79%
FHA	343	8,922,462	42.75%
VA	40	723,917	3.47%
Total	856	$ 20,873,576	100.00%

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

Conventional

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	33	$ 809,655	3.85%
60 days	2	47,903	0.23%
90 days or more	17	415,336	1.98%
Total	52	$ 1,272,894	6.06%

FHA

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	13	$ 304,460	1.52%
60 days	3	110,047	0.35%
90 days or more	6	231,159	0.70%
Total	22	$ 645,666	2.56%

VA

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	2	$ 28,341	0.23%
60 days	0	0	0.00%
90 days or more	3	100,796	0.35%
Total	5	$ 129,137	0.58%

TOTAL

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	48	$ 1,142,456	5.59%
60 days	5	157,950	0.58%
90 days or more	26	747,291	3.03%
Total	79	$ 2,047,697	9.21%

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

Series	Mortgage Rate	Acquired	Prepaid(7)	Prepaid
1980 Series A	11.20	2,947	2,835	96.20%
1982 Series A	13.93	340	339	99.71%
1983 Series A	10.79	3,737	3,597	96.25%
1984 Series A/B	12.10/9.75	3,040	2,956	97.24%
1985 Series A	9.75	2,011	1,886	93.78%
1985 Series B	9.70/9.55	558	517	92.65%
1985 Series C	8.20	462	418	90.48%
1986 Series A	8.70	1,121	1,035	92.33%
1986 Series B	7.99/7.90	1,291	1,148	88.92%
1987 Series B	7.99/8.05/8.70	1,168	1,088	93.15%
Totals		16,675	15,819	94.87%

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

From the inception of the Department's single family mortgage program through February 28, 2007, the Department has foreclosed on 3,066 Portfolio Mortgage Loans having an unpaid principal balance at default of $157,693,264. As of February 28, 2007, the Department continued to hold title to property securing two of such Portfolio Mortgage Loans aggregating $17,310 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.	8.20%
Texas Star Mortgage	7.99%
Countrywide	83.81%
Total	100.00%

Servicers—Mortgage Loans--Single Family

Servicers	Percent of Total Loans
Amegy Mortgage Company	56.86%
Saxon Mortgage Services, Inc.	14.70%
CitiMortgage, Inc.	11.57%
First Horizon Home Loan Corp.	5.51%
Valley Mortgage Company, Inc.	4.64%
Other	6.72%
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	$ 5,444,708
1982A	MGIC	997,934
1983A	MGIC	8,656,863
1984A/B	GEMIC	5,682,641
1985A	MGIC	541,392
1985B/C	MGIC	1,449,589
1986A(1996B)[8]	Self Insurance	440,976
1986B(1996E)[8]	Self Insurance	562,065
1987B(1997E)[8]	Self Insurance	496,960
Total		$ 24,273,128

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

Reserve Fund Balance

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

	Debt Service Reserve[9]	
Bond Series	Par Value Fund Balances Actual	Average Investment Rate[10]
1996 D-E	941,870	13.250%
2002A Jr. Lien	300,000	5.310%
2004A Jr. Lien	124,205	5.310%
Total	$ 1,366,075	

(9) 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.
(10) Weighted average rate of investments, which mature periodically.

DISCLAIMER

"All information contained in this Appendix F-1 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 February 28, 2007, there have been issued by the Agency or the Department, twenty-seven series of Residential Mortgage Revenue Bonds, forty-nine 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 February 28, 2007, the outstanding principal amount of bonded indebtedness of the Department for single family housing purposes was $1,293,960,000.

General - Multifamily The Department and the Agency have issued two hundred multifamily housing revenue bonds which have been issued pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of February 28, 2007, one hundred thirty nine series were outstanding with an aggregate outstanding principal amount of $1,186,809,223.

Single Family Mortgage Revenue Bonds ("SFMRBs") The Department has issued forty-nine 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 fifty-three indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by the SFMRB Indenture. As of February 28, 2007, twenty-three were outstanding with an aggregate outstanding principal amount totaling $941,390,000.

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 February 28, 2007, two series were outstanding with an aggregate outstanding principal of $11,920,000.

Residential Mortgage Revenue Bonds ("RMRBs") 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 February 28, 2007, fifteen series were outstanding with an aggregate outstanding principal amount of $327,250,000.

Collateralized Home Mortgage Revenue Bonds ("CHMRBs") The Department has issued eleven series of Collateralized Home Mortgage Revenue Bonds pursuant to the Collateralized Home Mortgage Revenue Bond Master Indenture and six separate series supplements, and are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of February 28, 2007, two series of CHMRBs were outstanding with an aggregate outstanding principal amount of $13,400,000.

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. On November 1, 2004, the SFCHMRB – 1993s were redeemed in whole by the SFMRB 2004 Series E Bonds.

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. On December 16, 2004, the underlying mortgage backed securities were sold and funds were escrowed to redeem the bonds in whole on their optional redemption dates of February 22, 2005, April 26, 2005 and June 27, 2006.

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 February 28, 2007, 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
Debt Service Reserve Fund				
Series 1996D/E/F	$ 941,870	13.250%	05/15/2014	Treasury Bond
Series 2002A Jr. Lien	300,000	13.875%	05/15/2011	Treasury Bond
Series 2004A Jr. Lien	124,205	5.310%	03/01/2007	USB Warburg
Float Fund				
Series 1982A	1,914	5.889%	09/30/2029	FGIC GIC
Series 1983A	387,902	6.062%	09/30/2029	FGIC GIC
Series 1984A/B	36,748	6.083%	09/30/2029	FGIC GIC
Series 1985A	3,231	5.312%	09/30/2029	FGIC GIC
Series 1985B/C	29,944	6.050%	09/30/2029	FGIC GIC
Series 1987B	6,957	5.319%	09/30/2029	FGIC GIC
Series 1991A	6,981	6.060%	09/30/2029	FGIC GIC
Series 1994A/B	57,490	5.792%	09/30/2029	FGIC GIC
Series 1995A/B	230,329	6.039%	09/30/2029	FGIC GIC
Series 1995C	22	6.060%	09/30/2029	FGIC GIC
Series 1996A/B/C	831,552	6.125%	09/01/2028	Westdeutsche Bank Investment Agreement
Series 1996D/E	399,159	6.080%	09/30/2029	FGIC GIC
Series 1997A/B/C	2,956,052	5.365%	08/31/2029	AIGMFC GIC
Series 1997D/E/F	3,508,896	5.441%	08/31/2029	CDCFC GIC
Series 2002A Jr. Lien	283,152	5.310%	03/01/2007	USB Warburg
Series 2002A/B/C/D	7,532,762	5.297%	03/01/2034	Bayerische GIC
Series 2004A/B	7,038,016	5.159%	03/01/2036	Transamerica Life GIC
Series 2004A Jr. Lien	117,493	5.310%	03/01/2007	USB Warburg
Series 2004C/D/E/F	5,415,307	5.282%	03/01/2036	Transamerica Life GIC
Series 2005A	4,016,508	5.294%	09/01/2036	Transamerica Life GIC
Series 2005B/C/D	3,161,883	5.310%	03/01/2007	USB Warburg
Series 2006A/B/C/D/E	11,423,974	5.232%	03/01/2007	USB Warburg
Series 2006F/G/H	2,014,635	5.310%	03/01/2007	USB Warburg
Acquisition Fund				
1994A/B	0	5.310%	03/01/2007	USB Warburg
2002A Jr. Lien	705,603	5.310%	03/01/2007	USB Warburg
2002A/B/C/D	0	5.310%	03/01/2007	USB Warburg
2004A Jr. Lien	291,969	5.310%	03/01/2007	USB Warburg
2004A/B	2,667,819	5.310%	03/01/2007	USB Warburg
2004C/D/E/F	0	5.310%	03/01/2007	USB Warburg
2005A	6,831,144	5.310%	03/01/2007	USB Warburg
2005B/C/D	2,939	5.310%	03/01/2007	USB Warburg
2006A/B/C/D/E	96,444,290	5.250%	12/31/2007	DEPFA Bank
2006F/G/H	116,756,636	5.191%	08/29/2008	DEPFA Bank

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APPENDIX H
APPLICABLE MEDIAN FAMILY INCOMES AND
MAXIMUM ACQUISITION COST LIMITATIONS

Area	60% of AMFI (^)	80% of AMFI (^)	100% of AMFI*	115% of AMFI**	120% of AMFI***	140% of AMFI****
Austin-Round Rock, MSA						
Austin-Round Rock, MSA (1)	$42,660	$56,880	$71,100	$81,765	$85,320	$99,540
Dallas-Fort Worth-Arlington, MSA						
Dallas, HMFA (2)	$39,900	$53,200	$66,500	$76,475	$79,800	$93,100
Fort Worth - Arlington, HMFA (3)	$38,040	$50,720	$63,400	$72,910	$76,080	$88,760
Wise County, HFMA	$34,080	$45,440	$56,800	$65,320	$68,160	$79,520
Houston-Baytown-Sugar Land, MSA						
Austin County, HFMA	$33,720	$44,960	$56,200	$64,630	$67,440	$78,680
Brazoria County, HFMA	$39,060	$52,080	$65,100	$74,865	$78,120	$91,140
Houston-Baytown-Sugar Land, HFMA (4)	$36,600	$48,800	$61,000	$70,150	$73,200	$85,400
Midland, MSA						
Midland, MSA (5)	$33,540	$44,720	$55,900	$64,285	$67,080	$78,260
Blanco County	$33,060	$44,080	$55,100	$63,365	$66,120	$77,140
Gillespie County	$32,640	$43,520	$54,400	$62,560	$65,280	$76,160
Hartley County	$37,620	$50,160	$62,700	$72,105	$75,240	$87,780
Hood County	$37,620	$50,160	$62,700	$72,105	$75,240	$87,780
Kendall County	$41,700	$55,600	$69,500	$79,925	$83,400	$97,300
Loving County	$39,000	$52,000	$65,000	$74,750	$78,000	$91,000
Ochiltree County	$33,660	$44,880	$56,100	$64,515	$67,320	$78,540
Roberts County	$35,100	$46,800	$58,500	$67,275	$70,200	$81,900
Somervell County	$32,940	$43,920	$54,900	$63,135	$65,880	$76,860
Balance of State	**$32,580**	**$43,440**	**$54,300**	**$62,445**	**$65,160**	**$76,020**

(1) Bastrop, Caldwell, Hays, Travis & Williamson Counties
(2) Collin, Dallas, Delta, Denton, Ellis, Hunt, Rockwall Counties
(3) Johnson, Parker & Tarrant Counties
(4) Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto & Waller Counties
(5) Midland County

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

(^) 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).

Effective: April 16, 2007
Revised: April 23, 2007

AVERAGE AREA PURCHASE PRICES

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

All statistical areas and counties in the State of Texas	$237,031

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

All statistical areas and counties in the State of Texas	$289,704

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The Texas Department of Housing and Community Affairs Single Family Variable Rate Mortgage Revenue Bonds, 2007 Series A

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