

OFFICIAL STATEMENT

RATINGS:
Moody's: Aaa
S & P: AAA

Vinson & Elkins L.L.P., Bond Counsel, is of the opinion that, subject to certain conditions described herein, (i) interest on the Series 1999 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 1999 Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations and the requirement for an opinion of nationally recognized bond counsel on the Remarketing Date for the Interim Rate Bonds (as such terms are defined herein).

NEW ISSUES - BOOK-ENTRY ONLY

\$140,765,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Residential Mortgage Revenue Bonds

\$52,260,000 Series 1999B-1
\$50,000,000 Series 1999B-2
\$12,150,000 Series 1999C
\$26,355,000 Series 1999D

Interest Accrues: Interim Rate Bonds - Date of Delivery
All Other Series 1999 Bonds - November 1, 1999

Due: As shown on inside cover page

The Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 1999B consisting of \$52,260,000 Series 1999B-1 Bonds (the "Fixed Rate Bonds") and \$50,000,000 Series 1999B-2 Bonds (the "Interim Rate Bonds") (collectively, the "Series 1999B Bonds"), the Texas Department of Housing and Community Affairs Residential Mortgage Revenue Refunding Bonds, Series 1999C (the "Series 1999C Bonds") and the Texas Department of Housing and Community Affairs Residential Mortgage Revenue Refunding Bonds, Series 1999D (the "Series 1999D Bonds") (the Series 1999B Bonds, the Series 1999C Bonds and the Series 1999D Bonds collectively, the "Series 1999 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 1999 Bonds. The Series 1999 Bonds will be available to purchasers only in book-entry form in denominations of \$5,000 or any integral multiple thereof. For as long as Cede & Co. is the exclusive registered owner of the Series 1999 Bonds, the principal of or redemption price, and interest on the Series 1999 Bonds will be payable by Bank One, Texas, N.A., Austin, Texas, as Trustee, to DTC, which will be responsible for making such payments to DTC Participants (as defined herein), for subsequent remittance to the owners of beneficial interests in the Series 1999 Bonds. The purchasers of the Series 1999 Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 1999 BONDS - DTC and Book-Entry."

The Series 1999 Bonds will accrue interest from the dates shown above, until their respective maturities or prior redemption. The Interim Rate Bonds initially will bear interest at the respective per annum rate of interest set forth on the inside cover hereof until the Remarketing Date (hereinafter defined) and, thereafter, at a fixed rate or rates of interest determined on the Remarketing Date. Series 1999 Bonds, other than Interim Rate Bonds, shall bear interest at the respective per annum rates of interest set forth on the inside cover page hereof. Interest on the Series 1999 Bonds will be payable to DTC commencing on July 1, 2000, and semi-annually thereafter on each January 1 and July 1 until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

THE SERIES 1999 BONDS ARE SUBJECT TO SPECIAL REDEMPTION, OPTIONAL REDEMPTION, AND MANDATORY SINKING FUND REDEMPTION ON THE DATES AND AT THE REDEMPTION PRICES, INCLUDING REDEMPTION AT PAR UNDER CERTAIN CIRCUMSTANCES, WHICH ARE MORE FULLY DESCRIBED HEREIN. See "THE SERIES 1999 BONDS - Redemption Provisions."

The Interim Rate Bonds are subject to mandatory tender for purchase or redemption on May 1, 2000 (the "Remarketing Date") at a purchase or redemption price, as the case may be, equal to the principal amount thereof, plus accrued interest to the Remarketing Date. See "THE SERIES 1999 BONDS - Mandatory Tender for Purchase" and "Redemption Provisions - Special Redemption on Remarketing Date."

The Series 1999B Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "Mortgage Certificates") backed by qualifying FHA-insured or VA-or RHS-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. For certain geographic and income restrictions, see "THE PROGRAM AND THE MORTGAGE LOANS." The Mortgage Certificates will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("GNMA") (the "GNMA Certificates") or the Federal National Mortgage Association ("Fannie Mae") (the "Fannie Mae Certificates"). See APPENDIX C-1 and APPENDIX C-2. The proceeds of the Series 1999C Bonds will be used for the purpose of refunding and redeeming an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT), thereby making additional funds available to acquire Mortgage Certificates. Proceeds of the Series 1999D Bonds, together with other funds available under the Trust Indenture (as defined herein), will be used to refund all of the outstanding Texas Housing Agency GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A and Series 1989B. The Series 1999 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 1999 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 GNMA, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 1999 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. GNMA AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GNMA CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 1999 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

The Series 1999 Bonds are offered when, as, and if issued by the Department. Delivery of the Series 1999 Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Kutak Rock and Wickliff & Hall, P.C. It is expected that the Series 1999 Bonds will be available for delivery to DTC in book-entry form only on or about December 2, 1999.

October 28, 1999

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

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

SALOMON SMITH BARNEY
SOUTHWESTERN CAPITAL MARKETS, INC.

MATURITY SCHEDULE

\$52,260,000 Series 1999B-1 Bonds

\$20,000,000 7.10% Term Bonds due July 1, 2021 Price 107.373%
\$32,260,000 6.32% Term Bonds due July 1, 2032 (Not reoffered)

(Accrued Interest on Series 1999B-1 Bonds from November 1, 1999 to be added)

\$50,000,000 Series 1999B-2 Bonds

\$50,000,000 3.90% Term Bonds due January 1, 2033 Price 100%
Mandatory Tender Date: May 1, 2000

(No Accrued Interest on Series 1999B-2 Bonds)

\$12,150,000 Series 1999C Bonds

\$2,045,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
July 1, 2003	\$ 95,000	5.05%	5.05%
July 1, 2004	110,000	5.20	5.20
July 1, 2005	125,000	5.30	5.30
July 1, 2006	125,000	5.40	5.40
July 1, 2007	140,000	5.50	5.50
July 1, 2008	155,000	5.60	5.60
July 1, 2009	175,000	5.70	5.70
July 1, 2010	185,000	5.80	5.80
July 1, 2011	205,000	5.90	5.90
July 1, 2012	225,000	6.00	6.00
July 1, 2013	245,000	6.10	6.10
July 1, 2014	260,000	6.20	6.20

\$10,105,000 6.25% Term Bonds due July 1, 2024 (Not reoffered)

(Accrued Interest on all Series 1999C Bonds from November 1, 1999 to be added)

\$26,355,000 Series 1999D Bonds

\$7,520,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
July 1, 2000	\$ 295,000	4.30%	4.30%
July 1, 2001	750,000	4.70	4.70
July 1, 2002	790,000	4.85	4.85
July 1, 2003	830,000	5.05	5.05
July 1, 2004	875,000	5.20	5.20
July 1, 2005	925,000	5.30	5.30
****	****	****	****
July 1, 2013	1,480,000	6.10	6.10
July 1, 2014	1,575,000	6.20	6.20

\$8,195,000 6.00% Term Bonds due July 1, 2012 (Not reoffered)

\$7,525,000 5.70% Term Bonds due July 1, 2020 Price 100%

\$3,115,000 6.25% Term Bonds due July 1, 2021 (Not reoffered)

(Accrued Interest on all Series 1999D Bonds from November 1, 1999 to be added)

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 1999 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth in this Official Statement has been obtained from the Department and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters or, as to information from other sources, by the Department. Any information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under such document shall, under any circumstances, create any implications that there has been no change in the affairs of the Department or other matters described herein since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 1999 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1999 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 1999 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

\$140,765,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS Residential Mortgage Revenue Bonds

\$52,260,000 Series 1999B-1

\$50,000,000 Series 1999B-2

\$12,150,000 Series 1999C

\$26,355,000 Series 1999D

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 Residential Mortgage Revenue Bonds, Series 1999B, consisting of \$52,260,000 Series 1999B-1 Bonds (the "Fixed Rate Bonds") and \$50,000,000 Series 1999B-2 Bonds (the "Interim Rate Bonds") (collectively, the "Series 1999B Bonds"), Residential Mortgage Revenue Refunding Bonds, Series 1999C (the "Series 1999C Bonds"), and Residential Mortgage Revenue Refunding Bonds, Series 1999D (the "Series 1999D Bonds"). The Series 1999B Bonds, the Series 1999C Bonds and the Series 1999D Bonds are referred to collectively herein as the "Series 1999 Bonds." 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 the Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, collectively, the "Act") for the purpose of, among other things, financing sanitary, decent and safe housing for individuals and families of low and very low income and families of moderate income. The Department is the successor agency to the Texas Housing Agency (the "Agency") and the Texas Department of Community Affairs (the "TDCA"), both of which were abolished by the Act and all functions and obligations of which were transferred to the Department pursuant to the Act. Under the Act, the Department may issue bonds, notes and other obligations to finance or refinance residential housing and multi-family developments located in the State of Texas and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. See "THE DEPARTMENT."

The Series 1999 Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on October 8, 1999 (the "Board Resolution"), a Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987 (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 MTrust Corp., or its successor as trustee, Bank One, Texas, N.A., Austin, Texas (the "Trustee"), and a Twelfth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Twelfth Supplemental Indenture") with respect to the Series 1999B Bonds, a Thirteenth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Thirteenth Supplemental Indenture") with respect to the Series 1999C Bonds, and a Fourteenth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Fourteenth Supplemental Indenture") with respect to the Series 1999D Bonds, each dated as of November 1, 1999 (collectively, the "Series 1999 B/C/D Supplements"). The Trust Indenture authorizes the Department

to issue bonds to provide funds to acquire or refinance residential mortgage loans or participations therein ("Mortgage Loans") which are made to eligible borrowers, as determined from time to time by the Department, to refund Outstanding Bonds issued under the Trust Indenture or certain other bonds of the Department or the Agency, to fund certain reserves, and to pay costs associated therewith. The Department has previously issued ten prior series of residential mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which \$192,515,000 in aggregate principal amount was Outstanding as of July 31, 1999. See "SECURITY FOR THE BONDS -- Prior Bonds." The Series 1999 Bonds, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the "Bonds") are equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Trust Indenture. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Additional Bonds."

The Series 1999B Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates (the "1999 Mortgage Certificates") guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("GNMA") or the Federal National Mortgage Association ("Fannie Mae") which represent beneficial ownership of pools of mortgage loans (the "1999 Mortgage Loans") and for paying a portion of the costs of issuance of the Series 1999 Bonds. The 1999 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 as the "Mortgage Certificates." The Series 1999C Bonds are being issued to refund and redeem an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT) (the "Refunded Notes"). Twenty percent (20%) of the proceeds of the Series 1999B Bonds will be set aside for at least one year for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. Thirty percent (30%) of the funds made available through the issuance of the Series 1999B Bonds and Series 1999C Bonds will be made available for a period of one year (or such longer period as determined by the Department) to borrowers of very low income (60% of applicable median family income), with the remaining funds available for borrowers with income of up to 115% of applicable median family income (140% in certain targeted areas). See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, and - Very Low Income Reservation," and "ASSUMPTIONS AND RISKS - Non-Origination of Mortgage Loans." The proceeds of the Series 1999D Bonds, together with other funds available under the Trust Indenture, will be deposited and applied for the primary purpose of refunding and redeeming, within 90 days after the delivery thereof, all of the outstanding Texas Housing Agency GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A (the "Series 1989A Bonds") and Series 1989B (the "Series 1989B Bonds") (the Series 1989A Bonds and Series 1989B Bonds, collectively, the "Refunded Bonds"). Upon such refunding, Mortgage Certificates purchased with proceeds of the Series 1989A Bonds (the "1989A Mortgage Certificates") and Mortgage Certificates purchased with proceeds of the Series 1989B Bonds (the "1989B Mortgage Certificates") will be transferred to the 1999 B/C/D Mortgage Loan Account (the "1999 B/C/D Mortgage Loan Account").

The Series 1999 Bonds are on a parity in all respects with all outstanding Prior Bonds and, unless subordinated, any Bonds subsequently issued. The Prior 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 Fund) and other property pledged under the Trust Indenture (collectively, the "Trust Estate"). The Trust Estate currently includes, among other things, Mortgage Certificates which were purchased with the proceeds of the Prior Bonds, other than the Series 1987A Bonds, and FHA-insured Mortgage Loans not backed by Mortgage Certificates, which Mortgage Loans were purchased with proceeds of the Series 1987A Bonds. There is no requirement that proceeds of subsequent issues of Bonds be used to purchase Mortgage Certificates. All payments with respect to principal of and interest on Mortgage Loans (net of servicing fees) and on Mortgage Certificates (net of servicing and guaranty fees) received by the Department and the earnings on investments of Funds and

Accounts held pursuant to the Trust Indenture constitute Revenues. The pledge of and lien on the Trust Estate is subject to discharge if moneys or qualified securities sufficient to provide for the payment of all Outstanding Bonds are deposited and held in trust for such payment. See "SECURITY FOR THE BONDS."

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. The Trust Indenture requires that the Debt Service Reserve Fund be maintained in an amount (the "Debt Service Reserve Requirement") at least equal to the sum of (i) four percent (4%) of the aggregate outstanding principal amount of Bonds issued prior to 1998 and (ii) the amounts specified in the Series Supplements for Bonds issued in or after 1998 (which Series Supplements, including those authorizing the Series 1999 Bonds, to date have specified zero as the amount of Debt Service Reserve Requirement). The Trust Indenture requires that the Mortgage Reserve Fund be maintained in an amount (the "Mortgage Reserve Fund Requirement") at least equal to the sum of (i) one and one-half percent (1.5%) of the outstanding principal amount of Bonds issued prior to 1998, and (ii) the amounts specified in the Series Supplements for Bonds issued in or after 1998 (which Series Supplements, including those authorizing the Series 1999 Bonds, to date have specified zero as the amount of Mortgage Reserve Fund Requirement). The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 1999 Bonds or any other Outstanding Bonds. As of July 31, 1999, the Debt Service Reserve Fund Requirement for the Bonds was \$2,021,800, and \$1,952,306 was on deposit in the Debt Service Reserve Fund and the Mortgage Reserve Fund Requirement for the Bonds was \$758,175 and \$732,115 was on deposit in the Mortgage Reserve Fund. As of such date, substantially all of the moneys on deposit in such Funds were invested in Mortgage Certificates. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE" herein.

THE SERIES 1999 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 GNMA, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 1999 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. GNMA AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GNMA CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 1999 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

There follows in this Official Statement a brief description of the plan of finance, the Department and its bond programs, together with summaries of certain terms of the Series 1999 Bonds, the Trust Indenture, and certain provisions of the Act, as well as other matters. All references herein to the Act, the Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 1999 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

For information concerning the Prior Bonds and the Mortgage Loans and Mortgage Certificates acquired with proceeds of the Prior Bonds, see "SECURITY FOR THE BONDS - Prior Bonds" and "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." For information concerning other single family and multi-family programs of the Department, "APPENDIX F-2 - OTHER INDEBTEDNESS OF THE DEPARTMENT."

PLAN OF FINANCE

Proceeds of the Series 1999B Bonds are to be used to fund the 1999 B/C/D Mortgage Loan Account and used to purchase Mortgage Certificates and to pay a portion of the costs of issuance of the Series 1999 Bonds. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series 1999C Bonds are to be applied to refund and redeem an equal amount of the Refunded Notes within ninety (90) days after the date of issuance of the Series 1999C Bonds, thereby making additional funds available to acquire Mortgage Certificates. See "SOURCES AND USES OF FUNDS" herein.

The proceeds of the Series 1999D Bonds, together with other funds available under the Trust Indenture, are to be used to refund and redeem all of the outstanding Refunded Bonds within ninety (90) days after the date of issuance of the Series 1999D Bonds, including the redemption premium therefor.

SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 1999 Bonds (exclusive of the accrued interest on the Series 1999 Bonds which is to be deposited in the 1999 Revenue Account) are expected to be approximately as set forth below.

Sources:

Bond Proceeds -- Series 1999B Bonds	\$103,734,600
Bond Proceeds -- Series 1999C Bonds	12,150,000
Bond Proceeds -- Series 1999D Bonds	26,355,000
Department Contribution	1,369,463
Lender Participation Fees	644,100
Master Servicer Premium*	322,050
Amounts Held With Respect to Refunded Notes	12,150,000
Guaranteed Investment Contract Premium	<u>440,100</u>
Total Sources	<u>\$157,165,313</u>

Uses:

Redemption of Refunded Notes	\$ 12,150,000
Redemption of Refunded Bonds	27,152,674
Deposit to Revenue Fund	600,000
Deposit to 1999 B/C/D Mortgage Loan Account	115,884,600
Underwriters' Compensation	810,790
Costs of Issuance	<u>567,249</u>
Total Uses	<u>\$157,165,313</u>

*Amounts not received from Master Servicer will be funded by Department contributions.

THE SERIES 1999 BONDS

General

The Series 1999 Bonds are issuable only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as the Bond Depository for the Series 1999 Bonds. The Series 1999 Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof, as more fully described herein. The principal or redemption price of, and interest on the Series 1999 Bonds will be payable by the Trustee to DTC, which will be responsible for making such payments to DTC Participants (hereinafter defined) for subsequent remittance to the owners of beneficial interests in the Series 1999 Bonds or their nominees. See "THE SERIES 1999 BONDS - DTC and Book-Entry."

Interest

The Series 1999 Bonds (other than the Interim Rate Bonds) will bear or accrue interest from November 1, 1999, until maturity or prior redemption. The Interim Rate Bonds will bear interest from their date of issuance initially at the rate of interest set forth on the inside cover hereof until the Remarketing Date (hereinafter defined) and, thereafter, any Interim Rate Bonds remarketed on the Remarketing Date shall bear interest at a rate (the "Remarketing Rate") determined on the Remarketing Date as a result of the remarketing thereof. The Remarketing Rate shall be established by the Remarketing Agent as the fixed per annum rate of interest equal to the lesser of 15% or the minimum rate necessary to enable the Remarketing Agent to remarketed such Interim Rate Bonds on the Remarketing Date at a price of par. The Series 1999 Bonds, other than the Interim Rate Bonds, will bear interest at the respective per annum rates of interest set forth on the inside cover hereof for each of the respective issues. Interest accrued on the Series 1999 Bonds will be payable on July 1, 2000, and semiannually on each January 1 and July 1 thereafter until maturity or prior redemption. Interest on the Series 1999 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Mandatory Tender for Purchase

The Interim Rate Bonds are subject to mandatory tender for purchase by the Trustee on May 1, 2000 (the "Remarketing Date"), at a purchase price equal to the principal amount thereof. Notice of such mandatory tender for purchase shall be given by the Trustee to the registered owners of the Interim Rate Bonds not less than 30 days prior to the Remarketing Date; provided, however, any failure to give or receive such notice or any defect with respect thereto shall not affect the requirement of mandatory tender on the Remarketing Date. The tender of such Bonds (unless held in book-entry only form) is required to be made at the address specified by the Trustee in such notice, not later than 10:30 a.m., New York, New York time, on the Remarketing Date. In lieu of purchase, the Interim Rate Bonds may be redeemed on the Remarketing Date. See "**Redemption Provisions - Special Redemption on Remarketing Date.**"

Redemption Provisions

The Series 1999 Bonds are subject to special redemption, optional redemption, and mandatory sinking fund redemption at various times prior to their scheduled maturities at various redemption prices as described below. The Interim Rate Bonds are not subject to redemption at the option of the Department other than as described below under "**Special Redemption on Remarketing Date.**" **The Department anticipates that**

substantially all of the Series 1999 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 and from certain excess Revenues transferred from the Residual Revenues Fund.

Special Redemption from Unexpended Proceeds

The Series 1999 Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities in whole or in part at a redemption price equal to 100% of the principal amount thereof (provided that any redemption of the Series 1999B Bonds maturing on July 1, 2021 (the "Premium Term Bonds") pursuant to this provision shall be a redemption price equal to 107.373% of the principal amount thereof) plus accrued interest thereon to but not including the date of redemption, without premium, from amounts representing lendable proceeds of the Series 1999 Bonds, if any, that are not to be used to purchase 1999 Mortgage Certificates and are transferred to the 1999 B/C/D Special Redemption Account (provided that any amounts transferred from the 1999 Down Payment Assistance Subaccount shall be used to pay the redemption price of Premium Term Bonds) as soon as practicable after receipt of the certification of the Department that such amounts will not be used to purchase 1999 Mortgage Certificates or the end of the Certificate Purchase Period, as the case may be, but in no event later than May 1, 2003. Series 1999 Bonds to be redeemed in accordance with this provision shall be selected by the Trustee in accordance with a Letter of Instructions to be provided by the Department.

Special Redemption From Mortgage Loan Principal Prepayments

The Series 1999 Bonds shall be subject to redemption prior to maturity and shall be redeemed, in whole or in part, at any time and from time to time, after giving notice as provided in Article IV of the Trust Indenture, at a Redemption Price equal to 100% of the principal amount of the Series 1999 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts representing Mortgage Loan Principal Prepayments that have been transferred to the 1999 B/C/D Special Redemption Account in accordance with the Trust Indenture.

In the event of a redemption pursuant to this provision, the Trustee shall select the particular Series 1999 Bonds to be redeemed as follows:

For amounts transferred to the 1999 B/C/D Special Redemption Account representing Mortgage Loan Principal Prepayments relating to the 1999 Mortgage Assets.

First, the Premium Term Bonds in an amount not in excess of the Maximum Premium Term Bond Redemption Amount as of such date. The Maximum Premium Term Bond Redemption Amount for any date is equal to the amount specified in the table below increased by any portion of the Maximum Premium Term Bond Redemption Amount not applied to the redemption of Premium Term Bonds on any of the prior dates listed in such table:

<u>Date</u>	<u>Maximum Premium Term Bond Redemption Amount</u>
January 1, 2000	\$ 0
July 1, 2000	335,000
January 1, 2001	405,000
July 1, 2001	510,000
January 1, 2002	660,000
July 1, 2002	830,000
January 1, 2003	950,000
July 1, 2003	1,035,000
January 1, 2004	1,080,000
July 1, 2004	1,115,000
January 1, 2005	1,075,000
July 1, 2005	1,020,000
January 1, 2006	965,000
July 1, 2006	920,000
January 1, 2007	870,000
July 1, 2007	830,000
January 1, 2008	790,000
July 1, 2008	750,000
January 1, 2009	715,000
July 1, 2009	675,000
January 1, 2010	650,000
July 1, 2010	610,000
January 1, 2011	585,000
July 1, 2011	555,000
January 1, 2012	525,000
July 1, 2012	495,000
January 1, 2013	475,000
July 1, 2013	445,000
January 1, 2014	130,000

If any of the Premium Term Bonds have been redeemed in accordance with the redemption described above under "Special Redemption from Unexpended Proceeds", the Maximum Premium Term Bond Redemption Amount set forth in the table above shall be reduced by multiplying each such Maximum Premium Term Bond Redemption Amount by the percentage of Premium Term Bonds so redeemed.

Second, for the Cumulative Mortgage Loan Principal Prepayments received as of such date which do not exceed the Cumulative Prepayment Amount as of such date as set forth in the table contained in APPENDIX H hereto, and unless otherwise instructed pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, amounts remaining following the redemption described in clause First above shall be applied as follows: (i) first, the Trustee shall select for redemption on a pro rata basis the Series 1999D Bonds maturing on July 1 in each of the years 2000 through 2005, both inclusive, 2013, and 2014 (the "Series 1999D Serial Bonds"), the Series 1999D Bonds due July 1, 2012 and the Series 1999D Bonds due July 1, 2020 until no such Series 1999D Bonds remain Outstanding; (ii) second, the Trustee shall select for redemption on a pro rata basis the Series 1999C Bonds maturing on July 1 of each of the years 2003 through 2014 (the "Series 1999C

Serial Bonds"), the Series 1999D Bond due July 1, 2021 and the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024 beginning January 1, 2015 through July 1, 2021 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full; and (iii) third, the Trustee shall select for redemption on a pro rata basis the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024 beginning January 1, 2022 through July 1, 2024 and the Series 1999B Bonds due July 1, 2032 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full.

Third, amounts remaining following the redemptions described in clauses First and Second above shall be applied as follows (unless otherwise instructed pursuant to a Letter of Instructions accompanied by a Cashflow Certificate): (i) first, the Trustee shall select for redemption on a pro rata basis the Series 1999B Bonds due July 1, 2021, the Series 1999C Serial Bonds, the Series 1999D Serial Bonds, the Series 1999D Bonds due July 1, 2012, the Series 1999D Bond due July 1, 2020, the Series 1999D Bonds due July 1, 2021 and the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024 beginning January 1, 2015 through July 1, 2021 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full; and (ii) second, the Trustee shall select for redemption on a pro rata basis the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024 beginning January 1, 2022 through July 1, 2024 and the Series 1999B Bonds due July 1, 2032 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full.

Special Redemption from Excess Revenues

The Series 1999 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, at any time and from time to time, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to 100% of the principal amount of the Series 1999 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts that have been transferred to the 1999 B/C/D Special Redemption Account from the Residual Revenues Fund or the Mortgage Loan Fund, in accordance with the Trust Indenture.

In the event of a redemption pursuant to this provision, the Trustee shall select the particular Series 1999 Bonds to be redeemed as follows (unless otherwise instructed pursuant to a Letter of Instructions accompanied by a Cashflow Certificate):

(i) First, the Trustee shall redeem the Series 1999D due July 1, 2021 until no such Bonds remain Outstanding.

(ii) Second, the Trustee shall redeem on a pro rata basis the Series 1999B Bonds due July 1, 2032 and the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024 beginning January 1, 2022 through July 1, 2024 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full.

(iii) Third, the Trustee shall redeem on a pro rata basis the Series 1999C Serial Bonds, the Series 1999D Serial Bonds, the Series 1999D Bonds due July 1, 2012, the Series 1999D Bonds due July 1, 2020, and the sinking fund redemption amounts of the Series 1999C Bonds due July 1, 2024

beginning January 1, 2015 through July 1, 2021 until no such Series 1999 Bonds remain Outstanding and the specified sinking fund redemption amounts have been paid in full.

(iv) Fourth, the Trustee shall redeem the Premium Term Bonds until such Premium Term Bonds have been paid in full.

Redemption Amounts and Prepayment Standard. The amounts shown above for Maximum Premium Term Bond Redemption Amount and in APPENDIX H for Cumulative Prepayment Amount are based on the assumptions of (i) receipt of prepayments on the 1999 Mortgage Assets equal to 50 percent of the Bond Markets Association's (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans (as further described below) (the "PSA Prepayment Model") in the case of Maximum Premium Term Bond Redemption Amount and 300 percent of the PSA Prepayment Model in the case of Cumulative Prepayment Amount; and (ii) that 100 percent of the moneys on deposit in the 1999 B/C/D Mortgage Loan Account attributable to the proceeds of the Series 1999 Bonds, will be used to purchase 1999 Mortgage Certificates. Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The PSA Prepayment Model for 30-year mortgage bonds represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. The PSA Prepayment Model does not purport to be either an historical description of the prepayment of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the 1989 Transferred Mortgage Assets or the 1999 Mortgage Certificates. One hundred percent of the PSA Prepayment Model assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans, 100 percent of the PSA Prepayment Model assumes a constant prepayment rate of six percent per year. Multiples will be calculated from this prepayment rate speed e.g., 200 percent of the PSA Prepayment Model assumes prepayment rates will be 0.4 percent per year on month one, 0.8 percent per year in month two, reaching 12 percent per year in month 30 and remaining constant at 12 percent per year thereafter.

Special Redemption on Remarketing Date

The Interim Rate Bonds are subject to redemption and shall be redeemed in whole or in part at the option of the Department on the Remarketing Date, at a Redemption Price equal to 100% of the principal amount of the Interim Rate Bonds or portions thereof to be redeemed plus accrued interest to the redemption date, from amounts transferred to the Series 1999B Special Redemption Account at the written direction of the Department. In the event that the Interim Rate Bonds are redeemed in part, the particular Interim Rate Bonds to be redeemed shall be selected by the Trustee on or about the fifth Business Day preceding the Remarketing Date, on a reasonably proportionate basis from among all of the maturities of the Interim Rate Bonds, such basis to be determined and effectuated as nearly as practicable by the Trustee by multiplying the aggregate principal amount of the Interim Rate Bonds to be redeemed by the ratio that the aggregate principal amount of the Interim Rate Bonds of each maturity bears to the aggregate principal amount of all Interim Rate Bonds, and at random within each maturity. Upon making such selections, the Trustee shall notify the Department and the Remarketing Agent, by Immediate Notice, of the aggregate principal amount of Interim Rate Bonds within each maturity to be redeemed pursuant to the Indenture.

The Interim Rate Bonds are also subject to redemption and shall be redeemed in whole on the Remarketing Date, at a Redemption Price equal to 100% of the principal amount of the Interim Rate Bonds to be redeemed, plus accrued interest to the redemption date, from amounts initially deposited to the Series 1999 B/C/D Mortgage Loan Account, which amounts have been transferred to the Series 1999 B/C/D Special Redemption Account, unless,

(i) the Trustee shall have received from the Department, by not later than the fourth Business Day preceding the Remarketing Date, a Cashflow Statement giving effect to the conversion of the interest rates on the Interim Rate Bonds to the Remarketing Rate and the establishment of the interest rate on the 1999 Mortgage Loans at the rate determined by the Department pursuant to the Trust Indenture;

(ii) the Trustee shall have received, by not later than the fourth Business Day preceding the Remarketing Date, a Counsel's Opinion to the effect that conversion of the interest rate on the Interim Rate Bonds to the Remarketing Date, and the establishment of the interest rate on the 1999 Mortgage Loans at the rate determined by the Department pursuant to the Trust Indenture, will not adversely affect the exclusion of the interest on the Series 1999B Bonds from the gross income of the Holders thereof for purposes of federal income taxation;

(iii) the Trustee shall have received from the Department, by not later than the close of business on the Business Day preceding the Remarketing Date, a Letter of Instructions directing the investment of all amounts held in the Accounts for the period following the Remarketing Date; and

(iv) there shall be on deposit in the Purchase Fund, by 1:00 p.m., New York, New York time, on the Remarketing Date, proceeds of the remarketing of the Interim Rate Bonds received from the Remarketing Agent, in an amount sufficient to pay the Purchase Price of the Interim Rate Bonds.

Optional Redemption

The Series 1999 Bonds, other than the Interim Rate Bonds and the Premium Term Bonds, are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after July 1, 2009, at the option of the Department, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to the principal amount of the Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date.

The Premium Term Bonds are subject to redemption, prior to maturity, in whole or in part, at any time and from time to time, on or after July 1, 2009, at the option of the Department, after giving notice as provided in the Trust Indenture, at the Redemption Price set forth below (expressed as a percentage of the principal amount of Premium Term Bonds or portions thereof to be redeemed) plus accrued interest to but not including the redemption date, as follows:

<u>Redemption Period</u>	<u>Redemption Price</u>
July 1, 2009 through June 30, 2010	105%
July 1, 2010 through June 30, 2011	104
July 1, 2011 through June 30, 2012	103
July 1, 2012 through June 30, 2013	102
July 1, 2013 through June 30, 2014	101
July 1, 2014 and thereafter	100

The Interim Rate Bonds are not subject to redemption at the option of the Department other than as described above under "*Special Redemption on Remarketing Date*".

Mandatory Sinking Fund Redemption

The Series 1999 Bonds maturing on the dates specified below are subject to scheduled mandatory redemption prior to maturity in the principal amounts and on the dates set forth in the following tables, at a redemption price equal to 100% of the principal amount of Series 1999 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

SERIES 1999B BONDS

Series 1999B Bonds Maturing
July 1, 2021

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2003	\$255,000	July 1, 2012	\$495,000
July 1, 2003	265,000	January 1, 2013	515,000
January 1, 2004	270,000	July 1, 2013	535,000
July 1, 2004	280,000	January 1, 2014	555,000
January 1, 2005	290,000	July 1, 2014	575,000
July 1, 2005	300,000	January 1, 2015	595,000
January 1, 2006	315,000	July 1, 2015	615,000
July 1, 2006	325,000	January 1, 2016	640,000
January 1, 2007	335,000	July 1, 2016	660,000
July 1, 2007	350,000	January 1, 2017	685,000
January 1, 2008	360,000	July 1, 2017	710,000
July 1, 2008	375,000	January 1, 2018	735,000
January 1, 2009	385,000	July 1, 2018	765,000
July 1, 2009	400,000	January 1, 2019	790,000
January 1, 2010	415,000	July 1, 2019	820,000
July 1, 2010	430,000	January 1, 2020	850,000
January 1, 2011	445,000	July 1, 2020	885,000
July 1, 2011	460,000	January 1, 2021	915,000
January 1, 2012	480,000	July 1, 2021	925,000 (Final Maturity)

Series 1999B Bonds Maturing
July 1, 2032

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
July 1, 2024	\$ 680,000	January 1, 2029	\$1,990,000
January 1, 2025	1,515,000	July 1, 2029	2,055,000
July 1, 2025	1,570,000	January 1, 2030	2,125,000
January 1, 2026	1,625,000	July 1, 2030	2,200,000
July 1, 2026	1,680,000	January 1, 2031	2,275,000
January 1, 2027	1,735,000	July 1, 2031	2,355,000
July 1, 2027	1,795,000	January 1, 2032	2,435,000
January 1, 2028	1,860,000	July 1, 2032	2,445,000 (Final Maturity)
July 1, 2028	1,920,000		

SERIES 1999C BONDS

Series 1999C Bonds Maturing
July 1, 2024

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2015	\$140,000	January 1, 2020	\$ 220,000
July 1, 2015	150,000	July 1, 2020	225,000
January 1, 2016	155,000	January 2021	235,000
July 1, 2016	165,000	July 1, 2021	270,000
January 1, 2017	170,000	January 1, 2022	1,240,000
July 1, 2017	175,000	July 1, 2022	1,280,000
January 1, 2018	185,000	January 1, 2023	1,325,000
July 1, 2018	190,000	July 1, 2023	1,370,000
January 1, 2019	200,000	January 1, 2024	1,420,000
July 1, 2019	210,000	July 1, 2024	780,000 (Final Maturity)

SERIES 1999D BONDS

Series 1999D Bonds Maturing
July 1, 2012

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
July 1, 2006	\$ 975,000	July 1, 2010	\$1,230,000
July 1, 2007	1,035,000	July 1, 2011	1,310,000
July 1, 2008	1,095,000	July 1, 2012	1,390,000(Final Maturity)
July 1, 2009	1,160,000		

Series 1999D Bonds Maturing
July 1, 2020

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2015	\$605,000	January 1, 2018	\$735,000
July 1, 2015	625,000	July 1, 2018	760,000
January 1, 2016	640,000	January 1, 2019	670,000
July 1, 2016	665,000	July 1, 2019	500,000
January 1, 2017	685,000	January 1, 2020	480,000
July 1, 2017	710,000	July 1, 2020	450,000 (Final Maturity)

Series 1999D Bonds Maturing
July 1, 2021

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2015	\$220,000	July 1 2018	\$280,000
July 1, 2015	230,000	January 1, 2019	245,000
January 1, 2016	240,000	July 1, 2019	190,000
July 1, 2016	245,000	January 1, 2020	180,000
January 1, 2017	255,000	July 1, 2020	165,000
July 1, 2017	260,000	January 1, 2021	285,000
January 1, 2018	270,000	July 1, 2021	50,000 (Final Maturity)

The principal amount of the Series 1999 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 1999 Bonds of the same Series and having the same stated maturity, which (A) at least 45 days prior to mandatory sinking fund redemption date, (1) shall have been acquired by the Department and delivered to the Trustee for cancellation, or (2) shall have been acquired and canceled by the Trustee at the direction of the Department, or (3) shall have been redeemed other than pursuant to mandatory sinking fund redemption, and (B) shall have not been previously credited against a scheduled mandatory sinking fund redemption.

Partial Redemption

In the event that a Series 1999 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 1999 Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof, such portion to be determined at random by the Trustee. Upon surrender of any Series 1999 Bond for redemption in part, the Trustee will authenticate and deliver an exchange Series 1999 Bond or Series 1999 Bonds in an aggregate principal amount equal to the unredeemed portion of the surrendered Series 1999 Bond. See "THE SERIES 1999 BONDS - DTC and Book-Entry."

Notice of Redemption

The Trustee shall give notice, in the name of the Department, of the redemption of Series 1999 Bonds to the holders thereof, which notice shall specify the series, maturities, and interest rates of the Series 1999 Bonds to be redeemed, the redemption date and the method and place or places where amounts due upon such redemption will be payable and, if less than all of the Series 1999 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 1999 Bonds so to be redeemed, and, in the case of Series 1999 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 any conditions that must be satisfied prior to the redemption date and that on such date there shall become due and payable upon each Series 1999 Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal amount thereof, in the case of Series 1999 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 nor more than 60 days prior to the redemption date, to the holders of any Series 1999 Bonds or portions thereof which are to be redeemed, at their last addresses, if any, appearing upon the registry books of the Trustee. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not received by the holder.

Conditional Notices of Redemption

The Department reserves the right to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events.

Payment of Redeemed Bonds

Notice having been given as provided in the Trust Indenture, the Series 1999 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. If there shall be called for redemption less than all of a Series 1999 Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 1999 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 1999 Bond so surrendered, registered Series 1999 Bonds of like Series, maturity, interest rate and aggregate principal amount in any Authorized Denomination. If, on the redemption date, moneys for the redemption of all the Series 1999 Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as specified in the Trust Indenture, then from and after the redemption date interest on the Series 1999 Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 1999 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 1999 Bonds, in the open market in lieu of redemption of Bonds. Any such purchase may be at a price not exceeding the then applicable redemption price for such Bonds.

DTC and Book-Entry

The Series 1999 Bonds will be available in book-entry form only. Purchasers of the Series 1999 Bonds will not receive certificates representing their interests in the Series 1999 Bonds purchased. The Depository Trust Company, New York, New York ("DTC") will act as Bond Depository for the Series 1999 Bonds. The ownership of one fully registered Series 1999 Bond for each maturity within a Series will be registered in the name of Cede & Co., as nominee for DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Department believes to be reliable, but the Department takes no responsibility for the accuracy or completeness thereof.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations, certain of which own DTC either directly or through their representatives. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant (the "Indirect Participants").

Purchases of Series 1999 Bonds under the DTC system may be made through brokers and dealers who are, or act through, DTC Participants. Upon such purchase, the DTC Participants will receive a credit balance on the records of DTC. The ownership interest of the actual purchaser of each Series 1999 Bond or such purchaser's nominee (collectively, the "Beneficial Owner") will be recorded in the records of the DTC Participant or Indirect Participant. DTC Participants and Indirect Participants are expected to provide Beneficial Owners with a written confirmation of their purchases containing details of the Series 1999 Bonds acquired. Transfers of ownership interests in the Series 1999 Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Indirect Participants and Beneficial Owners.

BENEFICIAL OWNERS WILL NOT RECEIVE SERIES 1999 BONDS IN DEFINITIVE FORM REPRESENTING THEIR OWNERSHIP INTEREST IN THE SERIES 1999 BONDS AND WILL NOT BE, OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE TRUST INDENTURE. BENEFICIAL OWNERS WILL HAVE NO VOTING RIGHTS UNDER THE TRUST INDENTURE AND CEDE & CO., AS NOMINEE OF DTC, ALONE WILL HAVE VOTING RIGHTS WITH RESPECT TO THE SERIES 1999 BONDS. FURTHER, AS DESCRIBED HEREIN, THE RIGHTS OF THE BENEFICIAL OWNERS OF THE SERIES 1999 BONDS, INCLUDING WITHOUT LIMITATION, THE RIGHT OF BENEFICIAL OWNERS TO RECEIVE NOTICE AND TO CONSENT TO CERTAIN ACTIONS OR OMISSIONS UNDER THE TRUST INDENTURE, ARE IN CERTAIN CASES SUBJECT TO AND DEPENDENT UPON THE ACTIONS AND PROCEDURES OF AND AGREEMENTS AND ARRANGEMENTS AMONG DTC AND THE DTC PARTICIPANTS. BENEFICIAL OWNERS OF THE SERIES 1999 BONDS ARE ADVISED TO CLARIFY AND CONFIRM SUCH ACTIONS, PROCEDURES, AGREEMENTS AND ARRANGEMENTS DIRECTLY WITH THE APPLICABLE DTC PARTICIPANTS.

FOR AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 1999 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 1999 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS, EXCEPT AS DESCRIBED HEREIN.

With certain exceptions described herein, the Department and the Trustee may treat and consider DTC or Cede & Co. as the absolute owner of each of the Series 1999 Bonds for the purpose of payment of the principal of and premium, if any, and interest on such Series 1999 Bonds, for the purpose of giving notices with respect to redemption and other matters with respect to such Series 1999 Bonds, for the purpose of registering transfers with respect to such Series 1999 Bonds, for obtaining any consent as to other actions required or permitted to be taken of or by the owners of such Series 1999 Bonds, for purposes of voting, and for all other purposes whatsoever. So long as any Series 1999 Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Series 1999 Bonds and all notices with respect to such Series 1999 Bonds will be made and given, respectively, to or upon the order of DTC.

The Trustee will make payments of the principal or redemption price of and interest on the Series 1999 Bonds to DTC or its nominee, Cede & Co., as the registered owner of the Series 1999 Bonds and such payments will be valid and effective to fully discharge the Department's and the Trustee's obligations to the extent of such payments. The current practice of DTC is to credit the accounts of the DTC Participants immediately upon receipt of moneys in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be in accordance with standing instructions and customary practices such as those which are now the case for municipal securities held by DTC Participants and Indirect Participants in bearer form or registered in "street name" for the accounts of customers and will be the

responsibility of such DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee or the Department, subject to any statutory and regulatory requirements as may be in effect from time to time.

SO LONG AS A BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES 1999 BONDS, THE TRUSTEE AND THE DEPARTMENT WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES WITH RESPECT TO SUCH SERIES 1999 BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNER, OF ANY SUCH NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF SUCH SERIES 1999 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Redemption of portions of the Series 1999 Bonds by the Department will reduce the outstanding principal amount of such Series 1999 Bonds held by DTC. In such event, DTC may implement, through its book-entry system, a redemption of such Series 1999 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and the DTC Participants and Indirect Participants may implement a redemption of any such Series 1999 Bonds for the Beneficial Owners. Any such selection of Series 1999 Bonds to be redeemed will not be governed by the Trust Indenture and will not be conducted by the Department or the Trustee. NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 1999 BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 1999 BONDS FOR REDEMPTION.

The Department and the Trustee cannot give any assurances that DTC Participants or others will distribute payments of the principal or redemption price of and interest on the Series 1999 Bonds paid to DTC or its nominee, as the registered owner, or distribute any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

For every transfer and exchange of Series 1999 Bonds the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC (or a successor Bond Depository) may determine to discontinue providing its service with respect to the Series 1999 Bonds at any time by giving notice to the Department and discharging its responsibilities with respect thereto under applicable law. In addition, in the event that the Department determines that the Bond Depository is incapable of discharging its duties, or that it is in the best interests of the Department or the owners of the Series 1999 Bonds, the Department may determine to discontinue the use of book-entry transfers through DTC (or a successor Bond Depository). Under such circumstances, based on information received from DTC or any successor Bond Depository as to the Beneficial Owners of the Series 1999 Bonds, definitive bonds will be delivered to the Beneficial Owners in definitive form as provided in the Trust Indenture.

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 1999 Bonds: Series 1999 Bonds may be exchanged for an equal aggregate principal amount of Series 1999 Bonds in other Authorized Denominations of the same Series, 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 1999 Bond may be registered

on the books maintained by the Trustee for such purpose only upon the surrender of such Series 1999 Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 1999 Bonds, the Department and the Trustee may make a charge sufficient to reimburse them for any tax 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 Department and the Trustee will not be required to transfer or exchange (a) any Series 1999 Bond for a period of 15 days next preceding an Interest Payment Date or next preceding any selection of Series 1999 Bonds to be redeemed or thereafter until after the mailing of any notice of redemption or (b) any Series 1999 Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 1999 Bond is registered as the absolute owner thereof for all purposes. If any Series 1999 Bond is not presented for payment when the principal or the redemption price therefor becomes due, or any check representing payment of interest on Series 1999 Bonds is not presented for payment, and if moneys sufficient to pay such Series 1999 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 1999 Bonds (or portion thereof) or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Trustee to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Series 1999 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, in accordance with Title 6, Texas Property Code.

SECURITY FOR THE BONDS

Pledge of Trust Indenture

The Bonds, including the Series 1999 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.

The 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 established pursuant to the Trust Indenture, which consists primarily of the following:

(a) Mortgage Certificates and the Revenues derived by the Department therefrom, including the scheduled principal payments thereof and interest payments thereon, principal prepayments, and payments made by GNMA or Fannie Mae, as the case may be, pursuant to their respective guaranties of the Mortgage Certificates (see "APPENDIX C-1 - GNMA AND THE GNMA CERTIFICATES" and "APPENDIX C-2 - FANNIE MAE AND THE FANNIE MAE CERTIFICATES");

(b) the Mortgage Loans and the Revenues derived by the Department therefrom, including the scheduled principal and interest payments, principal prepayments, and payments made with respect to FHA insurance or VA or RHS guaranty or Supplemental Mortgage Security (see "THE PROGRAM AND THE MORTGAGE LOANS");

(c) the moneys and Investment Securities held in the various Funds established by the Trust Indenture including the Mortgage Reserve Fund and the Debt Service Reserve Fund and the investment earnings thereon (see "Investment of Funds" below);

(d) such other Revenues and security pledged by the Department from time to time as security for the Bonds.

For purposes of the Trust Indenture, "Revenues" means (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 and Mortgage Certificates, including Mortgage Loan Principal Prepayments, and 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 (including any servicing fees and guaranty fees of GNMA and Fannie Mae); (ii) all interest received on or profits derived from investing moneys or securities held in the Funds 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 as part of the Trust Estate pursuant to a Supplemental Indenture. The term "Revenues," however, does not include fees paid to Mortgage Lenders to service Mortgage Loans; payments made in order to obtain or maintain primary mortgage insurance or guaranties with respect to one or more Mortgage Loans; payments made in order to obtain or maintain fire or other hazard insurance with respect to Mortgage Loans; 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; commitment fees; or amounts required to be paid or credited to a borrower or to the United States of America pursuant to applicable federal income tax laws and regulations.

The Department has covenanted in the Trust Indenture to enforce diligently, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans, including the prompt payment of all amounts due the Department thereunder. 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 are consistent with the Cashflow Statement most recently filed with the Trustee. The Department has the right under the Trust Indenture to amend or modify any Mortgage Loan if it will not impair or adversely affect the rights or security of the Bondholders except for amendments and modifications made in connection with settling any default on any Mortgage Loan which are consistent with the Cashflow Statement most recently filed with the Trustee, or in connection with a refinancing of a Mortgage Loan. The Department may, at its election, sell, assign, transfer or otherwise dispose of any Mortgage Loan or Mortgage Certificate, in whole or in part, or any of the rights of the Department with respect to any Mortgage Loan or Mortgage Certificate, in whole or in part, free and clear of the lien of the Indenture, but only if a Cashflow Statement establishes that such sale, assignment, transfer or other disposition will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds and the Rating Agency shall have confirmed that such sale, assignment, transfer or other disposition will not have an adverse affect on the rating on the Bonds. The Department may also sell any Mortgage Loan, Mortgage Certificate or other obligation evidencing or securing a Mortgage Loan if it is necessary for the Department to take such action in order to maintain the exclusion of interest from gross income for federal income tax purposes on any of the Bonds.

The Series 1999 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 GNMA, nor Fannie Mae, is obligated to pay the principal or redemption price of, or interest on, the Series 1999 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. GNMA and Fannie Mae guarantee only the payment of the principal of and interest on the GNMA Certificates and Fannie Mae Certificates, respectively, when due and do not guarantee the payment of the Series 1999 Bonds or any other obligations issued by the Department.

Reserve Funds

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. The Trust Indenture requires that the Debt Service Reserve Fund be maintained in an amount (the "Debt Service Reserve Requirement") at least equal to the sum of (i) four percent (4%) of the aggregate outstanding principal amount of Bonds issued prior to 1998 and (ii) the amounts specified in the Series Supplements for Bonds issued in or after 1998 (which Series Supplements, including those authorizing the Series 1999 Bonds, to date have specified zero as the amount of Debt Service Reserve Requirement). The Trust Indenture requires that the Mortgage Reserve Fund be maintained in an amount (the "Mortgage Reserve Fund Requirement") at least equal to the sum of (i) one and one-half percent (1.5%) of the outstanding principal amount of Bonds issued prior to 1998, and (ii) the amounts specified in the Series Supplements for Bonds issued in or after 1998 (which Series Supplements, including those authorizing the Series 1999 Bonds, to have specified zero as the amount of Mortgage Reserve Fund Requirement). The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 1999 Bonds or any other Outstanding Bonds. As of July 31, 1999, the Debt Service Reserve Fund Requirement for the Bonds was \$2,021,800, and \$1,952,306 was on deposit in the Debt Service Reserve Fund and the Mortgage Reserve Fund Requirement for the Bonds was \$758,175 and \$732,115 was on deposit in the Mortgage Reserve Fund. As of such date, substantially all of the moneys on deposit in such Funds were invested in Mortgage Certificates. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE" herein.

Mortgage Insurance

The Trust Indenture requires that all Mortgage Loans must be secured by Mortgages, subject to certain permitted encumbrances, on one-to-four family residences located in the State. Mortgage Loans (i) shall be insured by the FHA under the National Housing Act of 1934, as amended (other than Section 245 thereof), guaranteed by the RHS under the Cranston-Gonzales National Affordable Housing Act of 1990 or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended; or (ii) shall have (or have had at the time it was made) a principal balance not exceeding 80% of the purchase price or appraised value on the date of purchase, whichever is lower, of the mortgaged property, or be insured to the extent of any such excess by a private mortgage insurance company acceptable to each Rating Agency. See "APPENDIX B - SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS."

Supplemental Mortgage Security

The Trust Indenture requires that each Mortgage Loan be further secured by Supplemental Mortgage Security, if any, as directed in the Supplemental Indenture authorizing the Series of Bonds used to purchase such Mortgage Loan. Information concerning Supplemental Mortgage Security, including Mortgage Certificates and 1987A Mortgage Loans is contained in "APPENDIX B -- SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS", "APPENDIX C-1 - GNMA AND THE GNMA CERTIFICATES" and "APPENDIX C-2 - FANNIE MAE AND THE FANNIE MAE CERTIFICATES."

Cashflow Statement and Asset Test

The Department is required to deliver periodically a "Cashflow Statement" prepared or verified by a nationally recognized firm experienced in preparing mortgage revenue bond cashflows, comparing estimates of Revenues with the debt service requirements and Department Expenses with respect to Outstanding Bonds, which Cashflow Statement must demonstrate the sufficiency of such Revenues to pay scheduled debt service on the Bonds and Department Expenses and to maintain the funding of the Debt Service Reserve Fund and the Mortgage Reserve Fund at their respective requirements under each of the scenarios required by the Rating Agencies. Under the terms of the Trust Indenture, such Cashflow Statements must incorporate certain assumptions concerning Mortgage Loan Principal Prepayments, reinvestment rates, expenses and certain other assumptions as required by the Rating Agencies. The Cashflow Statement is required to be prepared (i) upon the issuance of a Series of Bonds; (ii) upon the adjustment of the interest rate or rates on a Series of Bonds, unless otherwise required by the applicable Series Supplement; (iii) upon the purchase or redemption of Bonds other than as assumed in the Cashflow Statement most recently filed with the Trustee; (iv) upon the application of Mortgage Loan Principal Payments other than as assumed in the Cashflow Statement most recently filed with the Trustee; (v) upon the application of amounts in the Residual Revenues Fund other than as assumed in the Cashflow Statement most recently filed with the Trustee; (vi) upon the application of excess amounts in the Debt Service Reserve Fund or the Mortgage Reserve Fund other than as assumed in the Cashflow Statement most recently filed with the Trustee; (vii) at such times if any, as may be required by a Supplemental Indenture; and (viii) not later than two and one-half years after the date of filing of the most recent Cashflow Statement. The Department, at its option, may file a revised or amended Cashflow Statement with the Trustee at any time.

The Department has covenanted in the Trust Indenture that it will not make, acquire, refinance or sell Mortgage Loans or Mortgage Certificates or purchase or redeem Bonds, including the Series 1999 Bonds, or take certain other actions permitted under the Trust Indenture, unless such actions are consistent with the assumptions set forth in its most recent Cashflow Statement.

Moneys held under the Trust Indenture in excess of the amounts required by the Asset Test (hereinafter described) may, at the written direction of the Department accompanied by a Cashflow Statement, be transferred to the Department to be used for any purpose authorized or permitted by the Act, free and clear of the pledge and lien of the Trust Indenture. In general, the Asset Test is deemed satisfied if the Mortgage Reserve Fund Requirement and Debt Service Reserve Fund Requirement are then satisfied and the outstanding principal balance of the Mortgage Loans and Mortgage Certificates and money and Investment Securities held in all Funds (other than the Cost of Issuance Fund, Expense Fund, Rebate Fund and Self-Insurance Fund) is at least equal to 102% of the principal amount of Bonds Outstanding. See "THE TRUST INDENTURE - Residual Revenues Fund."

Prior Bonds

In addition to the Series 1999 Bonds to be issued, ten series of Prior Bonds have been issued pursuant to the Master Indenture and ten separate Series Supplements. As of July 31, 1999, six Series of such Prior Bonds were Outstanding in the following principal amounts:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding</u>
Series 1988A	\$ 40,920,000	\$ 33,540,000
Series 1989A/B	89,000,000	17,005,000
Series 1998A/B	116,355,000	116,355,000
Series 1999A	<u>25,615,000</u>	<u>25,615,000</u>
TOTALS	\$271,890,000	\$192,515,000

Mortgage Loans and Mortgage Certificates

The following table summarizes certain information regarding the Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds. All Mortgage Loans acquired to date under the Trust Indenture are fixed rate loans for terms not exceeding 30 years. For a more detailed examination of the Mortgage Loans and Mortgage Certificates acquired with proceeds of the Prior Bonds, please refer to "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." Unless otherwise specified, all information is as of July 31, 1999.

Series	Mortgage Rate	Mortgage Loans/Certificates	
		Originated	Outstanding ⁽¹⁾
Series 1988A	6.50/6.69/7.69% 8.69/9.25	\$ 39,432,829	\$ 17,627,334
Series 1989A/B	7.69/8.69	77,819,827	31,524,376
Series 1998A/B	5.85	29,371,245	29,324,107
Series 1999A	9.55/8.00/9.25	68,520,474 ⁽²⁾	23,535,829 ⁽²⁾
Total		\$215,144,375	\$102,011,646

⁽¹⁾ Amounts include Mortgage Certificates purchased with monies deposited in the Debt Service Reserve Fund and the Mortgage Reserve Fund.

⁽²⁾ Represents Mortgage Loans and Mortgage Certificates transferred upon the refunding of Series 1987A and Series 1987D.

Since the inception of the Department's Residential Mortgage Revenue Bonds Program, the Department has foreclosed on approximately 46 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of \$2,367,269. The Department does not continue to hold title to property securing any of such Mortgage Loans. 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 -- ADDITIONAL INFORMATION CONCERNING THE DEPARTMENT'S MORTGAGE LOANS AND MORTGAGE CERTIFICATES" for information concerning the Department's current delinquency and foreclosure rates with respect to the Mortgage Loans.

Investment of Funds

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

The following table summarizes certain information as of July 31, 1999 (except that information relating to the Series 1999 Bonds is as of the date of delivery thereof), regarding yields (calculated on the basis of stated maturity) on existing investments (valued at par) within the Debt Service Reserve Fund, the Mortgage Reserve Fund and the Float Fund (as defined in Footnote 1 below) in connection with outstanding Prior Bonds and the Series 1999 Bonds:

<u>Fund or Account</u>	<u>Approximate Amount Invested (par value)</u>	<u>Average Investment Rate</u>	<u>Investment Maturity Date</u>	<u>Investment Security/ Investment Agreement Provider⁽²⁾</u>
Debt Service Reserve Fund				
Series 1988A	\$ 700,158	8.190%	3/20/15	GNMA Mortgage Certificates
Series 1989A/B	1,252,148	8.190	2/20/15	GNMA Mortgage Certificates
Mortgage Reserve Fund				
Series 1988A	262,559	6.190	4/20/16	GNMA Mortgage Certificates
Series 1989A/B	469,556	8.190	11/2015	GNMA Mortgage Certificates
Float Fund⁽¹⁾				
Series 1988A	N/A	7.875	7/01/18	Citicorp GIC
Series 1989A/B	N/A	7.875	7/01/18	Citicorp GIC
Series 1998/1999A	N/A	5.040	1/01/31	CDC Funding Corp GIC
Series 1999B/C/D	N/A	6.400	7/01/32	Bayerische Landesbank Girozentrale GIC
Mortgage Loan Fund				
Series 1998/1999A	8,908,085	5.121	2/01/01	Trinity Fund Company L.L.P. GIC
Series 1999 B/C/D	65,885,000	6.291	8/15/01	Assured Return Management Corporation GIC
Series 1999 Interim Rate Subaccount	50,000,000	3.900	5/01/00	Bayerische Landesbank Girozentrale GIC

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

⁽²⁾ "GIC" means guaranteed investment contract.

The 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 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.

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 validly issued in accordance with the Trust Indenture and the Act. The Department must also deliver to the Trustee a Cashflow Statement which gives effect to the issuance of such additional Bonds as described above under

"Cashflow Statement" and a written confirmation from each Rating Agency that the issuance of Bonds of each Series will not adversely affect the rating then in effect on any Outstanding Bonds (determined without regard to any Credit Facility). No additional parity Bonds may be issued unless, upon the issuance of such Bonds, the amounts credited to the Debt Service Reserve Fund and the Mortgage Reserve Fund will be sufficient to maintain the respective reserve requirements. The Department has reserved the right to adopt one or more other bond indentures and to issue other obligations payable from sources other than the Trust Estate or, payable from the Trust Estate, including the Revenues, if the pledge of and lien on the Trust Estate and the Revenues is junior to or subordinate to the pledge of and lien on the Trust Estate and the Revenues to the Bonds.

Sale of Mortgage Certificates and Mortgage Loans

The Department may, at its election, sell, assign, transfer or otherwise dispose of any Mortgage Loan or Mortgage Certificate, in whole or in part, or any of the rights of the Department with respect to any Mortgage Loan or Mortgage Certificate, in whole or in part, free and clear of the lien of the indenture, but only if a Cashflow Statement establishes that such sale, assignment, transfer or other disposition will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds and the Rating Agency shall have confirmed that such sale, assignment, transfer or other disposition will not have an adverse effect on the rating on the Bonds. The Department may also sell any Mortgage Loan, Mortgage Certificate on other obligation evidencing or securing a Mortgage Loan if it is necessary for the Department to take such action in order to maintain the exclusion of interest from gross income for federal income tax purposes on any of the Bonds.

Special Mortgage Loans

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. Special Mortgage Loans will be funded from moneys transferred from the Revenue Fund to the Special Mortgage Loan Fund in amounts, if any, specified in the Cashflow Statement and necessary to maintain the tax-exempt status of the related Bonds. Special Mortgage Loans will be pledged as additional security for the Bonds, but are not expected to satisfy the Mortgage Loan requirements under the Indenture and may be forgiven upon payment of the related Bonds.

ASSUMPTIONS AND RISKS

Assumptions

On the basis of the Cashflow Statement prepared in connection with the issuance of the Series 1999 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 1999 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 1999 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 of and mandatory sinking fund installments of the Series 1999 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 1999 Bonds will be established so that, together with 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), sufficient Revenues will be expected to be available to pay on a timely basis the principal of and interest on all Bonds outstanding under the Trust Indenture, including the Series 1999 Bonds, and certain other amounts required to be paid under the Trust Indenture. Such expectation is based on, among others, the following assumptions:

(a) moneys held in the Mortgage Loan Fund, the Revenue Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund, and the Residual Revenues Fund will be invested 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 timely payments will be made 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 and received by or on behalf of the Department on the 30th day following their scheduled payment dates;

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

(d) all future expenses with respect to the 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;

(e) all of the lendable proceeds of the Series 1999 Bonds will be used to purchase Mortgage Certificates representing Mortgage Loans with terms of thirty (30) years that will provide for payment of principal and interest in approximately equal monthly installments;

(f) each of the 1989A Mortgage Certificates will bear a pass-through rate of 8.75% per annum and the 1989B Mortgage Certificates will bear a pass-through rate of either 7.18% or 8.18% per annum; and

(g) each of the 1999 Mortgage Certificates will bear a pass-through rate of 6.10%.

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

Termination of Mortgage Loans and Mortgage Certificates

The maturities and redemption installments of the Series 1999 Bonds were determined on the basis of the assumption that there will be no early terminations of the Mortgage Loans or the Mortgage Certificates

relating to the Series 1999 Bonds. In fact, the Department expects Mortgage Loans and Mortgage Certificates relating to the Series 1999 Bonds will be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments. All Mortgage Loan Principal Prepayments relating to the Series 1999 Bonds will be deposited in the (i) Revenue Fund and transferred to the Special Redemption Account for use to redeem Series 1999 Bonds or other Bonds in accordance with the Trust Indenture or (ii) Mortgage Loan Fund and used to purchase Mortgage Certificates. Accordingly, the Department anticipates that substantially all of the Series 1999 Bonds will be redeemed prior to their scheduled maturities.

Federal Guarantee Limits

The dollar amount of commitments to guarantee securities that GNMA 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 GNMA, FHA or VA reach the limits of their respective authority, or if GNMA, in its sole discretion, or the federal government alters or amends the GNMA 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 GNMA 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 GNMA 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 1999 Bonds prior to their maturity.** See "THE SERIES 1999 BONDS - Redemption Provisions."

Non-Origination of Mortgage Loans

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

In addition, there exists a risk of non-origination resulting from the reservation for a period of one year (or such longer period as determined by the Department) of 30% of the lendable funds made available through the issuance of the Series 1999 Bonds for persons or families of very low income (60% of applicable area median family income), and the reservation of 20% of the proceeds of the Series 1999B Bonds for Mortgage Loans in certain federally designated targeted areas. See "THE PROGRAM AND THE MORTGAGE LOANS - Very Low Income Reservation, and - Targeted Area 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 Mortgage Revenue Bonds and with proceeds of the Prior Bonds pursuant to five separate programs. Mortgage Certificates purchased with the proceeds of its Single Family Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of September 30, 1999:

<u>Active Program</u>	<u>Program Start Date</u>	<u>Mortgage Rate</u>	<u>Mortgage Funds Available</u>	<u>Amounts Purchased</u>	<u>Reservation Amounts⁽¹⁾</u>	<u>Remaining Funds</u>
Program 49	10/01/96	5.95%	\$ 21,367,220	\$ 18,148,709	\$ 2,575,516	\$ 642,995
Program 51	11/07/96	6.75	92,699,932	90,796,137	1,893,828	9,967
Program 52	10/01/97	5.95	83,998,829	62,077,061	12,752,267	9,169,501
Program 53	01/19/98	5.95	71,055,725	44,444,790	14,196,803	12,414,132
Program 54	01/11/99	5.85	<u>118,038,687</u>	<u>51,751,345</u>	<u>37,213,300</u>	<u>29,074,042</u>
Total			\$387,160,393	\$267,218,042	\$68,631,714	\$51,310,637

⁽¹⁾ There are no assurances that any of the reservations by Mortgage Lenders for Mortgage Loans pending but not closed will ultimately result in the purchase of Mortgage Certificates.

The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee, in the amounts contemplated by this financing will result in redemption of the Series 1999 Bonds prior to their maturity. See "THE SERIES 1999 BONDS - Redemption Provisions."

Availability of Remedies

The remedies available to the owners of the Series 1999 Bonds upon an Event of Default under the Trust Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy laws, the Trust Indenture and the various Program documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 1999 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity which permit the exercise of judicial discretion.

THE DEPARTMENT

General

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

The Department is subject to the Texas Sunset Act (Chapter 325, Texas Government Code, as amended, hereinafter referred to as the "Sunset Act,") and its continued existence will be subject to a review process that commences in 1999. Unless continued in existence pursuant to the procedures established by the Sunset Act, the Department will be abolished effective September 1, 2001. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished

under the provisions thereof and provides that the Governor of the State shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act (such as the Series 1999 Bonds) that the State will not limit or alter the rights vested in the Department to fulfill the terms of any agreements made with the holders thereof that would in any way impair the rights and remedies of such holders until such bonds, together with the interest thereon, interest on any unpaid installments of interest and all costs and expenses incurred in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Organization and Membership

Governing Board

The Department is governed by a governing board (the "Board") consisting of nine members who are appointed by the Governor of the State with the advice and consent of the State Senate. Each member holds office for a term of six years, with the terms of three members expiring on January 31 of each odd-numbered year. Each member holds office until a successor is appointed and has 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 broadly reflect the economic, cultural, and social diversity of the State, including ethnic minorities and women, and specifically, representing the following areas: lending institutions, local government, housing construction, community based nonprofit housing organizations, realtors or housing developers, persons and families of low or very low income, and three public members.

The Governor of the State designates a member of the Board to serve as Chairman of the Board at the pleasure of the Governor. The Chairman presides at all meetings and performs such other duties as may be prescribed from time to time by the Board and by the Act. In addition, the members of the Board elect one of its members as Vice Chairman to perform the duties of the Chairman when the Chairman is not present or is incapable of performing such duties. The Board also elects a Secretary, Assistant Secretaries, and a Treasurer (none of whom need be Board members) to perform the duties prescribed by the Board.

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

DONALD R. BETHEL, Chairman and Board Member. Owner of Bethel Realty Company, Lamesa, Texas. His term expires January 31, 2001.

MARGIE LEE BINGHAM, Board Member. Director of Housing and Community Development for the City of Houston, Texas. Her term expires January 31, 2001.

FLORITA BELL GRIFFIN, Ph.D., Board Member. Vice President, Genesis Planning Innovations, Bryan, Texas. Her term expires January 31, 2001.

MICHAEL E. JONES, Board Member. Attorney, Potter, Minton, Roberts, Davis & Jones, P.C., Tyler, Texas. His term expires January 31, 2005.

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

ROBERT BREWER, Board Member. Rio Concho Retirement Community, San Angelo, Texas. His term expires January 31, 2003.

JAMES A. DAROSS, Board Member. Of Counsel, Krafus Gordon Mott P.C., El Paso, Texas. His term expires January 31, 2003.

LYDIA RANGEL SAENZ, Board Member. Owner, Prime Properties, Carrizo Springs, Texas. Her term expires January 31, 2005.

MARSHA L. WILLIAMS, Board Member. Attorney, Middleberg Riddle & Gianna, Dallas, Texas. Her term expires January 31, 2005.

All of the above Board members have been appointed by the Governor and have been confirmed by the State Senate.

Administrative Personnel

The Act provides that the Department is to be administered by an Executive Director to be appointed by the Board with the consent 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 334 employees with 24 being employed in the Department's Housing Finance Division, the division with primary responsibility for the administration of, among other things, bond-financed single family and multi-family programs. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family and multi-family housing matters.

DAISY STINER, Executive Director. Ms. Stiner joined the Department in January 1996, as Director of Housing Programs. On January 11, 1999, Ms. Stiner was originally appointed by the Governor to the position of Executive Director and such appointment was confirmed by the Texas Senate on February 22, 1999. As required by a change in the Act, in September 1999, Ms. Stiner was appointed by the Board, with the consent of the Governor, to the position of Executive Director. Ms. Stiner has over 20 year experience in all facets of affordable housing, community and economic development. Ms. Stiner received her Bachelor of Arts degree from Prairie View A&M University and her Masters of Art degree from Texas Southern University in Houston.

BYRON V. JOHNSON, Director of Bond Finance. Mr. Johnson joined the Department on July 19, 1999 as Director of Bond Finance. In this position, he is responsible for the development and administration of the Department's Single Family and Multifamily Mortgage Revenue Bond programs and the Department's Commercial Paper Program. Mr. Johnson also oversees ongoing compliance monitoring and disclosure requirements related to the Department's bond programs. Before joining the Department, Mr. Johnson was a Vice President in the public finance department of a regional investment bank. Prior to joining the regional investment bank, Mr. Johnson was employed as an Assistant Vice President by a minority-owned investment bank specializing in public finance in the Southeast. Mr. Johnson worked in the securities industry for over seven years prior to entering public finance and investment banking. Mr. Johnson began his career in the securities industry in 1984 as a Compliance Examiner with the National Association of Securities Dealers where he conducted financial and operational examinations of NASD member firms. He subsequently was employed by Kidder, Peabody & Co. as a staff auditor and later worked as a senior auditor in the Corporate Audit Department

at Shearson Lehman Brothers. Mr. Johnson earned an M.B.A. from the Fuqua School of Business at Duke University in 1993 and a Bachelor of Business Administration degree in Accounting from Savannah State University in 1984.

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

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

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

The offices of the Department are located at 507 Sabine, Suite 800, Austin, Texas 78701, and the telephone number for the Housing Finance Division of the Department is 512/475-3800. The Department maintains a website on the Internet which may be accessed at www.tdhca.state.tx.us.

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 55

The Department has established a Residential 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 1999 Bonds will be designated as the Department's Bond Program No. 55 ("Program 55"). In connection with the issuance of the Series 1999 Bonds and the outstanding Prior Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or Mortgage Certificates backed by Mortgage Loans) originated by commercial banks, savings and loan associations, mortgage companies, and other qualified institutions (the "Mortgage Lenders"). As a result of the issuance of the Series 1999 Bonds, the Trustee on behalf of the Department has agreed to purchase 1999 Mortgage Certificates.

Mortgage Loans evidenced by the 1999 Mortgage Certificates will bear interest at the rates established upon the issuance of the Series 1999 Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Trust Indenture. The purchase price for the 1999 Mortgage Certificates will be 100 % of par (plus accrued interest). The Department will purchase the 1999 Mortgage Certificates during a Certificate

Purchase Period which will expire on July 1, 2001, but which may be extended to a date no later than April 1, 2003, upon compliance with the terms of the Series 1999 B/C/D Series Supplements.

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 Servicers or Master Servicers, 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 Mortgage Loans in conformity with the guidelines. Each Mortgage Loan will be reviewed prior to acquisition 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, GNMA, VA or other major secondary mortgage market institutions.

Mortgage Lender Reservations

All of the funds made available through Program 55 will be committed to participating Mortgage Lenders through an allocation process for which the participating Mortgage Lenders will pay a 1% Program Participation Fee. Each Mortgage Lender's allocation will include a pro rata portion of each class of funds (targeted area funds and very low income funds). Each participating Mortgage Lender's allocated commitment will have a 12 month expiration.

Very Low Income Reservation

For the first one-year period of Program 55 (or such longer period as determined by the Department) after issuance of the Series 1999 Bonds, the Department is requiring that 30% of the funds made available for financing Mortgage Loans as a result of such issuance will be set aside for Mortgage Loans for individuals and families of very low income (60% of applicable median family income). See "APPENDIX G- APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS." After such period, Mortgage Lenders may make Mortgage Loans to any eligible borrowers and the Trustee may use any remaining reserved funds to purchase 1999 Mortgage Certificates representing Mortgage Loans made to any eligible borrowers.

Targeted Area Reservation

For the first twelve months of Program 55 (commencing on the date proceeds are first made available to finance Mortgage Loans, which is anticipated to be January 17, 2000), approximately \$10,452,000 of proceeds of the Fixed Rate Bonds will be required to be reserved for Mortgage Loans made in certain targeted areas. Further, upon any remarketing of the Interim Rate Bonds, an amount equal to 20% of the principal amount of the Interim Rate Bonds will be required to be similarly set aside for a period of twelve months after the Remarketing Date. See "TAX MATTERS -- Federal Income Tax Requirements -- Targeted Area

Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a Mortgage Loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 1999 Mortgage Certificates representing any Mortgage Loans made to eligible borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than 2% of the amounts available to make mortgage loans have been used to originate mortgage loans in such targeted areas. However, in its most recent programs, approximately 7% to 9% of amounts available have been used to originate mortgage loans in such targeted areas.

Community Home Buyer's Program

Pursuant to Fannie Mae requirements, in connection with Program 55, Mortgage Lenders will make available to all first time homebuyers participating in Program 55 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 55. 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.

Down Payment Assistance Program

In connection with the use of Program 55 funds to finance Mortgage Loans to eligible borrowers, the Department's Down Payment and Closing Cost Assistance Program may be available to low income (80% of AMFI - See APPENDIX G) borrowers to provide down payment and closing cost assistance. Down payment and closing cost assistance is required to be applied in the following order of priority to payment of (i) closing costs, and (ii) the borrower's down payment with respect to the Mortgage Loan. The maximum amount of down payment and closing cost assistance available under the program will be 5% of the acquisition price of the home and no second lien will be required. The Department estimates that sufficient down payment assistance funds will be available for only 30% of the total program allocation. Funds for downpayment assistance under Program 55 will be available on a first come first served basis to qualifying borrowers.

Eligible Borrowers

Each Mortgage Loan is required to be made to a person whose family income does not exceed the income limits established by the Department from time to time. In addition, to be eligible for a Mortgage Loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such Mortgage Loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans, certain exception loans hereinafter described, and certain homes falling into the Contract for Deed Exception, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the Mortgage; and (iii) who has not had an existing mortgage on the residence (other than a mortgage falling into the Contract for Deed Exception) to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than certain permitted temporary financing mortgages. The Department, subject to the requirements of applicable provisions of federal income tax law and applicable regulations, may approve a limited number of exception loans that do not satisfy the requirement described in clause (ii) in the immediately preceding sentence. In addition to the above requirement, thirty percent (30%) of the funds made available through Program 55 will be restricted for approximately one year from the beginning of Program 55 (or such longer period as determined by the Department) for individuals

and families of very low income (60% of applicable median family income). See "APPENDIX G - 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 G - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Mortgage Loans

Each Mortgage Loan must have met the following requirements at the date of purchase thereof:

(a) Each Mortgage Loan must be a loan to provide financing, whether interim or permanent or both, for the acquisition, construction, rehabilitation or improvement of residential housing to be owned and occupied by persons and families of low income and persons and families of moderate income, as determined by the Department in accordance with the Act;

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

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

(d) Each Mortgage Loan: (i) shall be insured by the FHA under the National Housing Act of 1934, as amended (other than Section 245 thereof), or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended or guaranteed by RHS under the Cranston-Gonzalez National Affordable Housing Act of 1990; or (ii) shall have (or have had at the time it was made) a principal balance not exceeding 80% of the lesser of the purchase price or appraised value on the date of purchase, whichever is lower, of the mortgaged property, or be insured to the extent of any such excess by a private mortgage insurance company acceptable to each Rating Agency;

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

(f) 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; and

(g) Each Mortgage Loan shall have such other characteristics or be secured by such Supplemental Mortgage Security (as specified in a Supplemental Indenture) such that the making, acquisition or refinancing thereof under the Trust Indenture and the inclusion thereof a part of the Trust

Estate will not impair, in and of itself, any rating on the Bonds then in effect, as evidenced by a letter from each Rating Agency.

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

Compliance Agent

The Department will act as a Compliance Agent for Program 55 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 GNMA Guide, the Fannie Mae Guide, and the applicable Program Supplement, compliance of the Mortgage Loans with the required terms thereof, and compliance of certain affidavits, certificates, and other documents with the requirements of federal tax law which relate to continuing tax exemption of the Series 1999 Bonds.

Servicing

General

The servicers for Mortgage Loans included in Mortgage Certificates are referred to herein individually as "Master Servicer" and collectively, as "Master Servicers." The Department is in the process of selecting an entity to act as the Master Servicer (the "Master Servicer") for all Mortgage Loans under Program 55. The Department has contracted with Mitchell Mortgage Corporation ("MMC") to act as the Master Servicer for all Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1998/1999A Mortgage Loans and the 1987A Mortgage Loans. The Department contracted with Texas State Affordable Housing Corporation ("TSAHC") to act as master servicer for 1998/1999A Mortgage Loans. TSAHC, in turn, has contracted with Countrywide Home Loans, Inc., as sub-servicer, to carry out the servicing responsibilities with respect to

1998/1999A Mortgage Loans. The Mortgage Lenders servicing the 1987A Mortgage Loans, 1998/1999A Mortgage Loans and other Mortgage Lenders servicing Mortgage Loans not included in Mortgage Certificates are referred to herein individually as "Servicer" and collectively, as "Servicers". The Mortgage Lenders servicing the 1987A Mortgage Loans are listed in "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

In connection with 1987A Mortgage Loans, the Servicers service the 1987A Mortgage Loans and the Department acts as an administrator, monitoring the Servicers' activities and remittances to the Trustee. The Department maintains a schedule of anticipated receipts which each Servicer is expected to remit to the Trustee. The Servicers report to the Department any delinquent payments and prepayments. The Department's computerized management information system reconciles Trustee receipts with Servicer reported remittances, reconciles loan amortization, monitors delinquencies and foreclosure actions, and monitors Servicer performance. Since the proceeds of the Prior Bonds, other than the Series 1987A Bonds, were used, and the proceeds of the Series 1999 Bonds will be used, to purchase Mortgage Certificates, the Department does not act as an administrator with respect to Mortgage Loans backed by Mortgage Certificates but monitors the actions of the Master Servicers.

Servicing of the Mortgage Loans Evidenced by 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, the Master Servicer is entitled to receive a monthly servicing fee equal to one-twelfth of 0.44% of the outstanding principal amount of the GNMA Certificates issued by it and 0.25% of the outstanding principal amount of the Fannie Mae Certificates delivered by it. Since the Mortgage Loans will bear interest at a rate which will be 0.50% greater than the rate on the corresponding GNMA Certificate, the Master Servicer deducts its servicing fees directly from amounts received on the Mortgage Loans, with the remaining 0.06% paid to GNMA as its GNMA guaranty fee. See "APPENDIX C-1 - GNMA AND THE GNMA CERTIFICATES." In the case of Mortgage Loans included in Mortgage Certificates guaranteed by Fannie Mae, the Master Servicer deducts its servicing fees directly from amounts received on such Mortgage Loans, with the remaining 0.25% paid to Fannie Mae as its Fannie Mae guarantee fee. See "APPENDIX C-2 - FANNIE MAE AND THE FANNIE MAE CERTIFICATES."

Servicing of the Mortgage Loans is required to be carried out in accordance with generally accepted practices in the mortgage lending industry and in accordance with the servicing standards set forth in the GNMA Guide or the Fannie Mae Guides, as applicable. In particular, the Master Servicer is 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 GNMA Mortgage Loan must be deposited into the GNMA Issuer's Primary Custodial Account and administered by the Master Servicer and the GNMA Paying Agent as more fully described herein in "APPENDIX C-1 - GNMA AND THE GNMA CERTIFICATES."

The Master Servicer must provide to the Department 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 Master Servicer acceptable to FHA, VA, RHS, GNMA, Fannie Mae and the Department. In the event the Master Servicer is in material breach of its servicing obligations imposed by GNMA, Fannie Mae or the Department or a material adverse change has occurred in the financial condition of the Servicer, the Department, with the approval of

GNMA and Fannie Mae, may terminate the Master Servicer's servicing rights and transfer and assign those rights to another Fannie Mae and GNMA-approved servicer.

Servicing of 1987A Mortgage Loans and Other Mortgage Loans Not Evidenced by Mortgage Certificates.

The following discussion applies to the servicing of 1987A Mortgage Loans and Mortgage Loans which may be acquired with the proceeds of Bonds issued in the future under the Trust Indenture but which are not evidenced by Mortgage Certificates.

Each Servicer is required to be a FHA-approved mortgagee and/or a Fannie Mae-, RHS- or VA-approved seller and servicer of Mortgage Loans. Each Servicer must service Mortgage Loans in accordance with the servicing standards set forth by the Department as such standards are specifically modified by the Agreement, the Department or the lender's manual published by the Department. Each Servicer 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 Servicer. As compensation for such services, a Servicer 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 the Servicers as permitted by law. A Servicer 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 Servicer may, with the prior written consent of the Department, assign its servicing rights and obligations to another Servicer in good standing under the Program.

All moneys collected by the Servicer pertaining to the Mortgage Loans may be deposited to a clearing account maintained by the Servicer; however, all Revenues shall be received in trust by the Servicer 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 Servicer 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 Servicer 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 Servicer are to be received in trust for the Department and the applicable eligible borrower and are to be deposited by the Servicer in such account or accounts as the Servicer 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 Servicer must advance such money to make the required payment.

With respect to any Mortgage Loan it is servicing, the Servicer is responsible for determining the necessity of instituting foreclosure action. The Servicer 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 Servicer must conduct all foreclosure procedures in accordance

with the Agreement. If the Department does not concur with a recommendation to foreclose, the Servicer 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."

Servicers 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 Servicer with the Agreement.

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

The Master Servicers

The Department is in the process of selecting an entity to act as Master Servicer under Program 55.

The Master Servicer for the Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1998/1999A Mortgage Loans and 1987A Mortgage Loans, is Mitchell Mortgage Company ("MMC"). MMC is a limited liability company located in The Woodlands, Texas and is wholly owned subsidiary of Southwest Bancorporation of Texas, Inc. MMC is engaged in the mortgage banking business, including the origination and purchase of residential and commercial mortgage loans to sell to investors with servicing rights retained. MMC has been a full service mortgage banking company for over 25 years and is an approved lender for FHA, a GNMA approved issuer of single family and multi-family mortgage backed securities, and an approved seller/servicer for FNMA and FHLMC. As of July 31, 1999, MMC participates as Master Servicer for the Department on Programs 37-40 consisting of 2,093 loans and an outstanding principal balance in the amount of \$77,309,025.

The Master Servicer for 1998/1999A Mortgage Loans 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. 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 Auditors Office, Texas Bond Review Board and Sunset Commission. TSM is an approved lender for FHA, a GNMA approved issuer of single family multi-family mortgage backed securities, and an approved seller/servicer for FNMA and FHLMC. As of July 31, 1999, TSM participates as Master Servicer for the Department on Programs 52, 53, and 54 consisting of 1,731 loans and an outstanding principal balance in the amount of \$117,559,207.

THE TRUST INDENTURE

General

The Trust Indenture, which includes the Master Indenture and each of the Series 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 and certain covenants with respect to applicable provisions of federal income tax law. See "TAX MATTERS - Federal Income Tax Requirements." 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 have been established under the Master Indenture: Mortgage Loan Fund; Cost of Issuance Fund; Revenue Fund; Interest Fund; Principal Fund; Special Redemption Fund; Debt Service Reserve Fund; Residual Revenues Fund; Mortgage Reserve Fund; and Expense Fund. In addition, the Twelfth Supplemental Indenture establishes the Series 1999 B/C/D Rebate Fund and establishes the 1999 Down Payment Assistance Subaccount and the 1999 Interim Rate Subaccount within the 1999 B/C/D Mortgage Loan Account.

The Series Supplements create within each Fund separate accounts for each Series or related Series of Bonds. The accounts so created do not grant a priority of one Series of Bonds over that of any other Series of Bonds, but are for accounting purposes only. The Series 1999B/C/D Supplements do not create separate accounts in the Debt Service Reserve Fund or the Mortgage Reserve Fund for the Series 1999 Bonds as no amounts will be contributed to such Funds in connection with the Series 1999 Bonds.

Mortgage Loan Fund

The Trustee is required to apply amounts in the Mortgage Loan Fund to pay the costs of making, acquiring, or refinancing Mortgage Loans, including the acquisition of Mortgage Certificates, including accrued interest thereon, if so directed in a letter of instructions from the Department. Any such disbursements are required to be within the certificate purchase period relating to the particular Series of Bonds. The Trustee is required to transfer amounts in the Mortgage Loan Fund relating to an account established for each Series of the Bonds to the Special Redemption Fund at the end of each Mortgage Loan origination period for such Series to pay the redemption price of Bonds of each Series to be redeemed or the purchase price of Bonds to be purchased. To the extent required by the provisions of the Master Indenture summarized below under the subheading "Withdrawal from Funds to Pay Debt Service", amounts in the Mortgage Loan Fund may be applied to the payment of principal or redemption price of and interest on the Bonds. Amounts deposited in the 1999 Down Payment Assistance Subaccount shall be paid by the Trustee to the Master Servicer from time to time upon receipt of a certificate from the Master Servicer stating the amount of the down payment assistance to be paid in connection with the acquisition of 1999 Mortgage Certificates.

Cost of Issuance Fund

Amounts credited to the Cost of Issuance Fund may be applied to pay Costs of Issuance. If at any time amounts on deposit in the Cost of Issuance Fund are in excess of the amounts reasonably required to pay Costs of Issuance, the Department may transfer such excess to the Mortgage Loan Fund or the Revenue Fund.

Revenue Fund

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

On or before each January 1 and July 1, and each date fixed for the redemption of Bonds, the Trustee is required to transfer amounts on deposit in the Revenue Fund representing Mortgage Loan Principal Payments at the Department's direction or as required by a Series Supplement to either the Principal Fund, the Mortgage Loan Fund, or the Special Redemption Fund. Pursuant to the Master Indenture and the Series Supplements, the Trustee is required to transfer all scheduled Mortgage Loan Principal Payments relating to a Series of Bonds, to the Principal Account established for such Series of Bonds, and to transfer all Mortgage Loan Principal Prepayments relating to a Series of Bonds to the Special Redemption Account for such Series of Bonds. Notwithstanding the foregoing sentence, the Department may direct the applications of such Mortgage Loan Principal Payments and Mortgage Loan Principal Prepayments otherwise within six months of receipt of such amounts by a Letter of Instructions accompanied by a Cashflow Statement. The Trustee also must transfer from the Revenue Fund the other amounts on deposit therein in the following order of priority:

- (a) first, to the Interest Fund, an amount, if any, which, when added to any amounts already on deposit therein, will equal the amount of interest to become due and payable on the Bonds on such interest payment date or redemption date;
- (b) second, to the Principal Fund, an amount which, when added to any amounts already on deposit therein, will equal the principal amount of all Bonds maturing on such interest payment date and the Redemption Price of all Bonds becoming subject to scheduled mandatory redemption on such redemption date;
- (c) third, to the Expenses Fund, the amount or amounts specified in the Series Supplements applicable to the Bonds then Outstanding as being necessary to pay Department Expenses consisting of amounts to be paid to obtain or maintain Supplemental Mortgage Security;
- (d) fourth, to the Debt Service Reserve Fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the Debt Service Reserve Fund Requirement;
- (e) fifth, to the Mortgage Reserve Fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the Mortgage Reserve Fund Requirement;
- (f) sixth, to the Expense Fund, the amount then required for the payment of Department Expenses (other than as described in clause (c) above), but not in excess of the maximum amount specified in the applicable Series Supplements;
- (g) seventh, to the Special Mortgage Loan Fund, the amount, if any, specified in the most recent Cashflow Statement as required by the Series Supplement to maintain the tax-exempt status of the Bonds; and

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

Interest Fund and Principal Fund

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

Special Redemption Fund

Amounts in the Special Redemption Fund are required to be applied by the Trustee to pay the redemption price of the Bonds becoming subject to redemption (other than by scheduled mandatory redemption) or, at the direction of the Department, may be transferred to the Revenue Fund if notice of redemption has not been given or such amounts have not been committed to the purchase of Bonds.

The Trustee, at any time at the direction of the Department in a Letter of Instructions accompanied by a Cashflow Statement, is required to apply amounts available in the Principal Fund or the Special Redemption Fund to pay the purchase price of Bonds.

Debt Service Reserve Fund and Mortgage Reserve Fund

Amounts in the Debt Service Reserve Fund and the Mortgage Reserve Fund are required to be used to pay the principal or redemption price of or interest on the Bonds if the Revenues are insufficient for such purpose in order of priority set forth below under the subheading "Withdrawals from Funds to Pay Debt Service." Moneys credited to the Debt Service Reserve Fund and Mortgage Reserve Fund, other than a portion of such amounts relating to the Series 1989A Bonds, have been used to acquire Mortgage Certificates.

Prior to each distribution from the Revenue Fund described under the subheading "Revenue Fund" above, the Trustee is required to calculate the amounts on deposit in the Debt Service Reserve Fund and the Mortgage Reserve Fund in excess of the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement, respectively. Pursuant to the Series Supplements, the Trustee is required to transfer all such excess, if any, in the Debt Service Reserve Fund and the Mortgage Reserve Fund to the Revenue Fund, unless otherwise directed by the Department in a Letter of Instructions accompanied by a Cashflow Statement giving effect to such directions.

If the amount in the Debt Service Reserve Fund and the Mortgage Reserve Fund, together with the amounts in the Principal Fund, Interest Fund and Special Redemption Fund, is sufficient to fully pay all Bonds in accordance with their terms (including principal or redemption price of and interest thereon), and if all Bonds are then subject to redemption, the Trustee is required to transfer the amounts in the Mortgage Reserve Fund and the Debt Service Reserve Fund to the Special Redemption Fund and the Interest Fund, as appropriate, if so directed by the Department.

Expense Fund

Amounts in the Expense Fund 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 Loans and the preservation of the mortgaged property securing such Mortgage Loans. Excess amounts in the Expense Fund may be transferred to the Revenue Fund at the direction of the Department.

Residual Revenues Fund

During such time as the Department is not meeting the asset test described in the next paragraph (the "Asset Test"), amounts in the Residual Revenues Fund are required to be retained in the Residual Revenues Fund or transferred to the Mortgage Loan Fund, the Special Redemption Fund, the Debt Service Reserve Fund (to the extent the amount therein is less than the Debt Service Reserve Fund Requirement) or the Mortgage Reserve Fund (to the extent the amount therein is less than the Mortgage Reserve Fund Requirement), as directed by a Letter of Instructions from the Department accompanied by a Cashflow Statement or, in the absence of such instructions, as may be required by the applicable Series Supplements.

The Department will be deemed to have met the Asset Test if: (i) the Department has on file with the Trustee a Cashflow Statement giving effect to a transfer and release proposed as described in the next paragraph; (ii) as of the date of such Cashflow Statement the sum of the outstanding principal balance of the Mortgage Loans and the Mortgage Certificates, and the money and Investment Securities (valued at their amortized values as required by the Indenture) held in all Funds (other than the Cost of Issuance Fund, the Expense Fund and any mortgage pool self-insurance reserve established by the Department with respect to the Mortgage Loans) is at least equal to 102% of the aggregate principal amount of Bonds then Outstanding; and (iii) amounts then on deposit in the Debt Service Reserve Fund and Mortgage Reserve Fund are at least equal to the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement, respectively.

If at any time the Department meets the Asset Test, the Trustee is required to apply amounts in the Residual Revenues Fund (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) as follows: (i) the Trustee is required to transfer such amounts to the Mortgage Loan Fund or the Special Redemption Fund or remit such amounts to the Department to be used for any purpose authorized or permitted by the Act, free and clear of the pledge and lien of the Trust Indenture, if so directed by a Letter of Instructions from the Department accompanied by a Cashflow Certificate; or (ii) in the absence of such instructions, the Trustee is required to retain such amounts in the Residual Revenues Fund.

Special Mortgage Loan Fund

As a result of the issuance of the Series 1998/1999A Bonds, the Tenth Series Supplement established a Special Mortgage Loan Fund as a separate fund pledged (unless withdrawn to make Special Mortgage Loans) 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).

Withdrawals from Funds to Pay Debt Service

If on any interest payment date on the Bonds, after giving effect to the transfers from the Revenue Fund described above, the amount in the Interest Fund or the Principal Fund is less than the amount required to make interest and principal payments then due, the Trustee shall transfer from the following funds in the following order of priority the amount of such deficit and apply such amount to pay interest and principal as necessary:

(i) Residual Revenues Fund; (ii) Special Redemption Fund; (iii) Mortgage Reserve Fund; (iv) Mortgage Loan Fund; and (v) Debt Service Reserve Fund.

None of the following are deemed available under the Trust Indenture for the payment of debt service on the Bonds: (i) the moneys in the Special Redemption Fund which are to be used to redeem Bonds as to which notice of redemption has been given or committed to the purchase of Bonds; (ii) moneys in the Mortgage Loan Fund which are to be used to make, acquire, or refinance Mortgage Loans or Mortgage Certificates with respect to which the Department has entered into commitments with borrowers, Servicers or Master Servicers or others; or (iii) Mortgage Loans and Mortgage Certificates credited to the Mortgage Loan Fund.

Investments

Moneys held in the Mortgage Loan Fund, the Revenue Fund, the Interest Fund, the Principal Fund, the Special Redemption Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund, the Rebate Fund, and the Residual Revenues Fund are required to be invested and reinvested by the Trustee or by an Depository holding all or a portion of the moneys in such Funds, in accordance with instructions from the Department and moneys held in the Cost of Issuance Fund and the Expense Fund are required to be invested and reinvested by the Department or by any Depository holding all or a portion of the moneys in such Funds, in accordance with instructions from the Department, to the fullest extent practicable and if permitted by the Act, in Investment Securities the principal of which the Department estimates will be received not later than such times as will be necessary to provide moneys when needed for payments to be made from each such Fund. See "THE TEXAS TREASURY SAFEKEEPING 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), are required to be transferred to the Revenue Fund.

If not otherwise directed in a Letter of Instructions, the Trustee shall invest cash balances in any Fund or Account in its One Group U.S. Treasury Securities Money Market Fund, or a comparable cash management fund in the One Group U.S. Treasury Securities Money Market Fund shall become unavailable for any reason, so long as such fund has a rating at least as high as the then current rating on the Outstanding Bonds. The Trustee is specifically authorized to implement its automated cash investment system to assure that cash on hand is invested and to charge its normal cash management fees, which may be deducted from income earned on investments.

Other Department Covenants

The Department is required to keep proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries must be made of its transactions in accordance with generally accepted accounting principles. The Department is required to file annually, within 180 days after the close of each Bond Year, with the Trustee, and otherwise as provided by law, a copy of an annual report for such year, accompanied by an accountant's certificate, including the following statements in reasonable detail: a statement of financial position as of the end of such Bond Year; and a statement of Revenues and Department Expenses for such Bond Year. The Department at all times is required to appoint, retain and employ competent personnel for the purpose of carrying out its programs and must 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 must be qualified for their respective positions.

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 when due; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Trust Indenture or in the Bonds, and the continuance of such default for a period of 60 days after written notice thereof to the Department by the Trustee or to the Department and to the Trustee by the owners of not less than 10% in principal amount of the Bonds then Outstanding; or (iv) the commencement of various proceedings involving the Department in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, state or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the Department or for all or a substantial part of its property, and unless commenced by or consented to by the Department, their continuation for 90 days undismissed or undischarged.

Bondholders' Rights in the Event of Default

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

If any Event of Default occurs and is continuing, then the Trustee may and, upon the written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, 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 a 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.

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

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

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

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

Trustee

Bank One, Texas, N.A., is currently the Trustee for all Series of Bonds issued under the Trust Indenture.

The Department is required to pay reasonable compensation to the Trustee, any Depositories and any paying agent (other than the GNMA Paying Agent) for all services rendered under the Trust Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and for the performance of their powers and duties under the Trust Indenture.

The Trustee is required to be removed if so requested by the holders of majority in aggregate principal amount of the Bonds then Outstanding. In addition, the Trustee may be removed, with or without cause, at any time (unless an Event of Default has occurred and is continuing) by resolution of the Governing Board of the Department; provided, that all holders of Bonds be given notice of such action and the Department shall not have received, within 60 days after such notice, written objections to such action by the holders of at least a majority in aggregate principal amount of the Bonds then Outstanding. The Trustee may also resign, upon appropriate notice. In either event, a successor is required to be appointed. Any successor Trustee must be a bank or trust company or national banking association doing business and having its principal office in the State, and having

capital stock and surplus aggregating at least \$75,000,000, which is willing and able to accept the office on reasonable and customary terms and which is authorized by law to perform all the duties imposed on its by the 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 (other than moneys and securities required to be held in the Interest Fund, the Principal Fund and the Special Redemption Fund). Any depository appointed by the Department must be: (i) the Comptroller of Public Accounts, as successor to the State Treasurer of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company; or (ii) a bank or trust company organized under the laws of the United States or any state thereof and having capital stock and surplus of at least \$50,000,000 which the Department determines to be capable of properly discharging its duties in such capacity and which is acceptable to the Trustee. See "THE TEXAS TREASURY SAFEKEEPING COMPANY."

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

Any Depository may at any time resign and be discharged of its duties and obligations under the Trust Indenture by giving at least 60 days' written notice to the Department and the Trustee. Any Depository may be removed at any time by the Department by resolution of the Governing Board of the Department.

Supplemental Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, a supplemental Indenture may be executed and delivered by the Department and the Trustee, without the consent of any Bondholders: (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 cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Trust Indenture; (iii) 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; (iv) to grant to or confer upon the Trustee for the benefit of the Bondholder any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Trustee; (v) to close the Trust Indenture against, or provide limitations on, the delivery of Bonds; (vi) to add to the covenants of the Department in the Trust Indenture other covenants which are not inconsistent with the Trust Indenture; (vii) 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; (viii) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Trust Indenture that is not inconsistent with the Trust Indenture; (ix) to confirm the subjection to any lien or pledge created by the Trust Indenture of the Trust Estate or any other moneys; (x) 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 adoption of such Supplemental Indentures shall cease to be outstanding; (xi) to amend the Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; (xii) to add to the definition of Investment Securities in accordance with the provisions of such definition; or (xiii) to make any other change in the Trust Indenture which does not, in the opinion of the Trustee, materially and adversely affect the rights of the holders of the Bonds.

Amendment of Indenture with Consent of Bondholders

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

Defeasance

If the Department pays irrevocably or causes to be paid irrevocably, or there otherwise is 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, will thereupon terminate.

Bonds or interest installments for the payment or redemption of which moneys are held in trust by the Trustee or any paying agent at the maturity or redemption date thereof will be deemed to have been paid within the meaning of the Trust Indenture. In addition, all Outstanding Bonds of any Series will be deemed to have been paid within the meaning of the Trust Indenture if: (i) in case any of the Bonds are to be redeemed on any date prior to their maturity, the Department has given to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date; (ii) there has been deposited with the Trustee or any paying agent either moneys in an amount which are sufficient, or Government Obligations not subject to redemption prior to the maturity thereof, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or any paying agent at the same time, are sufficient, to pay when due the principal or redemption price, 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 to be redeemed within the next succeeding 60 days, the Department has 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 paying agent and that said Bonds are deemed to have been paid in accordance with the Trust Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, on said Bonds.

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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

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

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

YEAR 2000 COMPLIANCE

Possible Impact of the Issue

The Year 2000 issue results from computer programs that do not differentiate between the Year 1900 and the Year 2000 because they were written using two digits rather than four to define the applicable year. Accordingly, computer systems and equipment with embedded computer hardware that have time-sensitive calculations or functions may not properly recognize the Year 2000. As described below, while the Department is taking steps to assess the full scope of the Year 2000 issue on its operations, and it believes that it has identified the areas of its operations that it will need to modify (to the extent that it has not already done so), given the proliferation of computers and embedded computer processing devices or "microchips" throughout virtually all aspects of the Department's operations and in the general economic environment in which the Department is only a small part, it is possible that despite all precautions taken, the Year 2000 computer issue will become manifest. This could result in a computer system failure or miscalculations causing disruptions of

operations, including among other things, the temporary inability to process transactions, send invoices, or engage in other routine activities. The description herein of the Year 2000 issue, and the Department's efforts to address the issue, is not intended to be a complete description of the issue or all aspects of the Department's response to the issue.

Department's Remediation Strategy

Commencing with the fiscal year 1997, the Department undertook an assessment of the impact and cost involved in addressing and resolving the Year 2000 issue. In that regard, a Department committee was assembled to create business awareness and a project leader was appointed to assist in development and implementation of a Year 2000 project plan. For inventory purposes, the Department divided its systems into subsystems consisting of software (in-house and packaged), hardware (printers, servers, and routers), interfaces (external interfaces to agencies and companies) and embedded systems (fax machines, phones, elevators, etc.). In addition, letters requesting information concerning Year 2000 compliance were sent to vendors and strategic business partners, including paying agents, DTC, Texas Treasury Safekeeping Trust Company, trustees, master servicers, sub-servicers, investment providers, credit enhancers, and other parties involved in the payment, collection, and/or remittance of funds to or from the Department or to the bondholders. As a result of its inventory of its own systems, the Department has determined that 100% of the Department's in-house applications are Year 2000 compliant. Consequently, a contingency plan has not been developed for in-house applications; however, the Department will reassess the status of Year 2000 compliance monthly and develop contingency plans at that time for all critical systems that are not then Year 2000 compliant. The Department estimates that the total cost to the Department of its Year 2000 remediation strategy will be in the range of \$200,000 for Information System personnel cost as estimated in the Department's 1998-1999 Biennial Operating Plan.

Third-Party Vendors and Suppliers

As indicated above, the Department has contacted various vendors and suppliers in order to determine whether they will be Year 2000 compliant on a timely basis. Based upon responses received from such vendors and suppliers, as of October, 1999, 100% of the commercial applications were represented to be Year 2000 compliant. While the Department is implementing a Year 2000 strategy, it cannot control the operations of other entities. Any particular manifestation of the Year 2000 issue by entities with whom the Department does business or any material or adverse manifestation of Year 2000 issue on the economy as a whole could materially and adversely affect the ability of the Department to deliver its services and/or its financial condition.

The Trustee's Year 2000 Readiness Disclosure

The Trustee has complied with a regulatory guideline which provides that the Trustee's testing of its mission critical systems be complete and the implementation of mission critical systems be substantially complete by June 30, 1999. The Trustee's applications, computers, systems software, telecommunications systems, security devices, desktop PCs, servers, and office equipment have undergone extensive testing and are 2000 ready in all material respects. The Trustee will continue to verify the readiness of computer applications, equipment and contingency plans by testing them throughout the remainder of 1999. The Trustee's Internet site (<http://www.bankone.com>) contains detailed information regarding the Trustee's Year 2000 readiness preparations.

DTC's Year 2000 Readiness Disclosure

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC's Internet site (<http://www.dtc.org>) contains detailed formation regarding DTC's progress and plans to support industry preparations for the implementing Year 2000 readiness solutions. DTC has informed its participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to security holders, book-entry deliveries and settlement of trades with DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third-party vendors from whom DTC licenses software and hardware, and third-party vendors on whom DTC relies for information or the provisions of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third-party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

Texas Treasury Safekeeping Trust Company Readiness Disclosure

The Comptroller of Public Accounts for the State of Texas (the "Comptroller") is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company"). The Comptroller is required by statute to manage the Trust Company. All references to Comptroller in the following statement include the Trust Company. The Comptroller has completed all software coding changes associated with Year 2000 software compliance issues. The Comptroller is using the remainder of calendar year 1999 to retest all productional systems and external interfaces. The Comptroller does not anticipate that it will experience any Year 2000 problems with the software systems within its organization. The project, which includes additional computer testing and embedded review, shows an overall completion rate of 98.7%.

Specifically, the Comptroller in accordance with the agency's project plan submitted to the Department of Information Resources (the "DIR") in January 1998, completed and extensive inventory and analysis of all information technology ("IT") critical and non-critical systems. In addition to the Comptroller's tax and investment systems, the Comptroller's office has also examined, evaluated, upgraded and/or replaced necessary networking equipment, personal computers and mainframe hardware. System remediation for the Comptroller's office is monitored by using the DIR tracking tool, which concentrates on a five-phase approach for remediation of all systems. This method included analysis, design, coding, testing and implementation. A system is not considered complete until the code is placed back into the Comptroller's production environment and has successfully completed a full cycle of processing for both batch and on-line functions.

Year 2000 Disclaimer

All information contained herein is obtained from sources believed to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, such information is provided "as is"

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 1999 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 1999 Bonds.

Prospective purchasers of the Series 1999 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 1999 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.

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 requirements 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 1999 must not exceed the unified volume cap for private activity bonds imposed by the Code and applicable regulations.

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.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Series 1999 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 1999 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.

As described above under "THE SERIES 1999 BONDS - Interest" and "THE SERIES 1999 BONDS - Redemption Provisions - *Special Redemption on Remarketing Date*," the conversion of the interest rate on the Interim Rate Bonds on the Remarketing Date is conditioned on delivery of an opinion to the effect that such changes will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. The delivery of such opinion will depend on facts and law that exist on such future date. Therefore, Bond Counsel's opinion will express no opinion regarding the excludability of interest on the Interim Rate Bonds from gross income for federal income tax purposes on and after the date of any such change. Further, Bond Counsel will express no opinion on its ability to render the opinion required in connection with change.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 1999 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 1999 Bonds for federal income tax purposes, and in addition, will rely on representations by the Department, the Underwriters, the Master Servicer, the Mortgage Lenders, and the Verification Agent with respect to matters solely within the knowledge of the Department, the Underwriters, the Master Servicer, the Mortgage Lenders, and the Verification Agent, respectively, which representations Bond Counsel has not independently verified. If the Department, a Mortgage Lender, or the Master Servicer fails to comply with such procedures, safeguards and covenants or if such representations should be determined to be inaccurate or incomplete, interest on the Series 1999 Bonds could become taxable from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26 percent of so much of such taxable excess as does not exceed \$175,000 plus 28 percent of so much of such taxable excess as exceeds \$175,000. 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 1999 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 Department has covenanted in the Trust Indenture that it will take all actions necessary in order to comply with each of the foregoing requirements.

Mortgage Eligibility Requirements

The Code contains six (6) basic mortgage eligibility requirements that must be met at the time a mortgage is executed or assumed.

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

First-time Homebuyer Requirement. The Code requires that at least 95% of the net proceeds of an issue used to provide owner-financing (except for targeted areas and certain exceptions related to residences financed pursuant to a contract for deed, where such requirement does not apply) 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 requirement does not apply (i) to Targeted Area Loans or (ii) in the case of land possessed under a contract for deed by a mortgagor whose principal residence is located on such land and whose family income is not more than 50% of the AMFI (the "Contract for Deed Exception"), and provided, further, that the Department has the right to approve, on a case-by-case basis, a limited number of Mortgage Loans that do not satisfy the three-year requirement.

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 financed pursuant to a contract for deed.

Purchase Price Limitations. The Code requires that the purchase price of the residence may not exceed 90% of the average area purchase price applicable to such residence, or, in the case of residences in certain targeted areas, 110% of the applicable average area purchase price. The Internal Revenue Service has published "safe harbor rules" identifying purchase price limitations in the State that are considered to be in compliance with the requirements of the Code. The Department has determined to rely on the safe harbor figures for purposes of the Series 1999 Bonds.

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

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

Targeted Area Requirement

The Code requires that either (a) an amount equal to at least 20% of the lendable proceeds of an issue of qualified mortgage bonds or (b) an amount equal to 40% of the average annual aggregate principal amount of mortgages executed during the immediately preceding three (3) calendar years for single family owner occupied residences in the targeted area, if such amount is less, must be reserved, for at least one year from the date such proceeds are first made available to purchase mortgage loans, for the purchase of mortgage loans to provide financing for residences located within one or more targeted areas consisting of census tracts identified by the United States Treasury Department as having a substantial concentration of lower-income persons and areas of chronic economic distress designated by the State and approved by HUD. The State, at the request of the Department, has designated and HUD and the Secretary of the Treasury have approved, certain "areas of chronic economic distress" within the State. In addition, the Department has determined that there are "qualified census tracts" within the State. The Department initially has reserved 20% of the lendable proceeds of the Series 1999B Bonds for Targeted Area Residences.

Requirements Related to Arbitrage

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

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

Reporting Requirements

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

Redemption Requirements

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

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

The Code requires that all amounts of \$250,000 or more which are received by the issuer and represent complete repayments of mortgage loans or prepayments of principal of mortgage loans must be used to redeem

bonds of the same issue not later than the close of the first semiannual period beginning after the date the prepayment or complete repayment is received. This requirement does not apply to amounts received within ten years after the date of issuance of bonds.

Recapture Requirements

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

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

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

Compliance with Tax Requirements

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

The Department has covenanted in the Trust Indenture and the Mortgage Lenders and the Master Servicer have covenanted in the Program Documents to comply with the above-described requirements of the Code as applied to the Series 1999 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 1999 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 November 1, 1999 (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 1999 Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 1999 Bonds. Under the Disclosure Agreement, the Department will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from said vendors.

No Eligible Borrower is an "obligated person" (as defined in Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended) for whom financial information or operating data would be presented in the final Official Statement relating to the Series 1999 Bonds had such Eligible Borrower been known at the time of the offering of the Series 1999 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 - REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEARS ENDED AUGUST 31, 1998 and 1997" (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), and "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES" 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 1999. 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 most recent Fiscal Year ended August 31, 1999. Accordingly, it is required to provide updated information by the last day of February in the year 2000 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 1999 Bonds, if such event is material to a decision to purchase or sell Series 1999 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 1999 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 1999 Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

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

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 1999 Bonds at any future date. The Department disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its Disclosure Agreement or from any statement made pursuant to its Disclosure Agreement, although holders of Series 1999 Bonds may seek a writ of mandamus to compel the Department to comply with its Disclosure Agreement.

The Disclosure Agreement may be amended by the Department and the Trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Department, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell any Series 1999 Bonds in the primary offering of the Series 1999 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 1999 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 1999 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 1999 Bonds in the primary offering of such Series 1999 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

It is a condition of the Underwriters' obligation to purchase the Series 1999 Bonds, that Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") shall have assigned ratings to the Series 1999 Bonds of "Aaa" and "AAA," respectively. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings do not represent recommendations to buy, sell, or hold the Series 1999 Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of the ratings.

There is no assurance that 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 1999 Bonds.

UNDERWRITING

The Series 1999 Bonds (except for the Series 1999B Bonds maturing on July 1, 2032, the Series 1999C Bonds maturing on July 1, 2024 and the Series 1999D Bonds maturing on July 1, 2012 and July 1, 2021 (collectively, the "Placed Bonds") which are being placed directly with Fannie Mae) are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters have jointly and severally agreed, pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"), to purchase all of the Series 1999 Bonds other than the Placed Bonds (collectively, the "Underwritten Bonds") at a total purchase price of \$88,564,600, plus accrued interest on the Underwritten Bonds other than the Interim Rate Bonds for which they will be paid an underwriting fee (including a placement agent fee with respect to the Placed Bonds) of \$810,790. The Placed Bonds are being sold directly to Fannie Mae pursuant to the Bond Purchase Agreement at a price equal to the principal amount thereof, plus accrued interest thereon. The Bond Purchase Agreement provides, among other things, that the Underwriters' and Fannie Mae's respective obligations to make such purchase are subject to certain terms and conditions set forth in such Bond Purchase Agreement, including the approval of certain legal matters by their respective counsel and certain other conditions. The initial public offering prices of the Underwritten Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Underwritten Bonds offered to the public to certain dealers (including dealers depositing the Underwritten Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices other than the public offering prices stated on the inside front cover hereof.

FINANCIAL ADVISOR

Dain Rauscher Incorporated (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 1999 Bonds and, in such capacity, has responsibility primarily for providing the Department with information on interest rates, reoffering prices and underwriting fees on similar financings being sold under current market conditions. The Financial Advisor has not independently verified any of the information set forth herein. Accordingly, no assurance is made by the Financial Advisor as to the accuracy or completeness of any information herein. No person is permitted to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to such completeness and accuracy.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund for the fiscal years ended August 31, 1998 and 1997 included in this Official Statement have been audited by KPMG Peat Marwick LLP, independent certified public accountants, and Martinez, Mendoza, and Colmenero, P.C., independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP and Martinez, Mendoza, and Colmenero, P.C.

The unaudited interim financial statements of the Department for the eleven-month period ended July 31, 1999 are included in Appendix D-2 to this Official Statement.

AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEAR ENDED AUGUST 31, 1999, WILL BE FILED WITH THE NRMSIRS AND THE SID ON OR BEFORE FEBRUARY 29, 2000.

THE MOST RECENT AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - REVENUE ENTERPRISE FUND ARE ALSO AVAILABLE AT THE DEPARTMENT'S WEBSITE AT: www.tdhca.state.tx.us.

THE SERIES 1999 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 1999 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 1999 Bonds, or in any way contesting or affecting the validity of the Series 1999 Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 1999 Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 1999 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 1999 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 1999 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 1999 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 1999 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 1999 Bonds for such purposes.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., the verification agent, will verify the mathematical accuracy of the computations relating to (i) the sufficiency of projected cashflow receipts and disbursements on the Mortgage Loans and other funds pledged to pay the principal of and interest on the Bonds under certain assumptions and (ii) the computation of yield on the Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 1999 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 1999 Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 1999 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 1999 Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Kutak Rock and Wickliff & Hall, P.C. Kutak Rock is in the process of converting to a limited liability partnership; its opinion as co-counsel to the Underwriters will be delivered by Kutak Rock LLP in the event the conversion is completed prior to the issuance of the Series 1999 Bonds.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 1999 Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "PLAN OF FINANCE," "THE SERIES 1999 BONDS" (but excluding the information contained therein under the subheadings "Redemption Amounts and Prepayment Standard," and "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the subheadings "Prior Bonds", "Mortgage Loans and Mortgage Certificates" and "Investment of Funds") "THE PROGRAM AND THE MORTGAGE LOANS (but excluding information set forth under the headings "Community Home Buyer's Program" and "The Master Servicers"), "THE TRUST INDENTURE," "TEXAS TREASURY SAFEKEEPING TRUST COMPANY," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A, and APPENDIX E, to this Official Statement, solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Trust Indenture and the Series 1999 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 1999 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 1999 Bonds.

Additional information may be obtained from the Department by mail at 507 Sabine, Suite 800, Austin, Texas 78711.

TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

By: /s/ Donald R. Bethel
Chairman and Member
Governing Board

By: /s/ Daisy Stiner
Executive Director

Dated: October 28, 1999

APPENDIX A

GLOSSARY

APPENDIX A

GLOSSARY

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

"Act" shall mean the Texas Housing Agency Act, Chapter 2306, Government Code, as amended from time to time.

"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.

"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 Year" shall mean each one-year period that ends on the date selected by the Department, or if none is selected, each annual anniversary of the issuance date of the Series 1999 Bonds. The first and last Bonds Years may be short periods.

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

"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, or the payment office of the Paying Agent are authorized or obligated by law or executive order to be closed for business, or (iii) day on which the New York Stock Exchange is closed.

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

"Cashflow Statement" shall mean a cashflow statement conforming to the requirements of the Trust Indenture.

"Certificate Purchase Period" shall mean the period from March 1, 2000 to July 1, 2001, but which may be extended to a date not later than April 1, 2003.

"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 Bonds.

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

"Cost of Issuance" shall mean the items of expense payable or reimburseable directly or indirectly by the Department and related to the authorization, sale, issuance and remarketing of Bonds, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs, costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Fiduciaries; bond discounts; underwriting fees and remarketing fees; legal fees and charges; consulting fees and charges; auditing fees and expense; financial advisors' fees; credit rating fees; initial amounts paid to obtain Supplemental Mortgage Security or a Credit Facility; fees and charges for execution, transportation and safekeeping of Bonds; and other administrative or other costs if issuing, carrying, repaying, and remarketing Bonds and investing the Bond proceeds and costs incurred in marketing or advertising the Program.

"Credit Enhancer" shall mean any party providing a Credit Facility with respect to a Series of Bonds.

"Credit Facility" shall mean any credit facility securing payment of Bonds described in a Series Supplement.

"Debt Service Reserve Fund Requirement" shall mean, with respect to the Outstanding Bonds as of any date of calculation, the greater of (a) an amount equal to the aggregate with respect to all Series of the amounts, if any, specified as the Debt Service Reserve Fund Requirement for each Series in the respective Series supplement authorizing such Series, or (b) \$0.

"Department" shall mean the Texas Department of Housing and Community Affairs and its successors and assigns.

"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 Fiduciaries; mortgage loan servicing fees; costs of issuance not paid from proceeds of bonds; payments to pension, retirement, health and hospitalization funds; amounts paid to obtain and maintain Supplemental Mortgage Security; 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.

"Depository" shall mean any bank or trust company (including the Comptroller of Public Accounts of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company) appointed by the Department as a depository of moneys and securities held under the Trust Indenture.

"Fannie Mae" shall mean the Federal National Mortgage Association, 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.

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

"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.

"FHLMC" shall mean the Federal Home Loan Mortgage Corporation or any successor or assign thereof.

"Fiduciaries" shall mean the Trustee, the Depository, and paying agents.

"Fixed Rate Bonds" shall mean the Series 1999B Bonds bearing interest at a fixed rate of interest.

"Fund" shall mean the Mortgage Loan Fund, the Cost of Issuance Fund, the Revenue Funds, the Interest Fund, the Principal Fund, the Special Redemption Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund, the Expense Fund, the Rebate Fund, and the Residual Revenues Fund established under the Master Indenture.

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

"GNMA Certificate" shall mean a fully-modified, mortgage-backed pass-through certificate (i) issued by the GNMA Issuer; (ii) representing an undivided beneficial ownership interest in a Mortgage Pool; (iii) guaranteed as to the timely payment of principal and interest thereon by GNMA; (iv) and acquired by the Department with the proceeds of the Bonds.

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

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

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

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

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

"Immediate Notice" shall mean notice by telephone, telecopy or telex, promptly confirmed in writing sent by overnight delivery.

"Interim Rate Bonds" shall mean the Series 1999B Bonds bearing interest at the Interim Interest Rate.

"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) Government Obligations;

- (b) FHA debentures;
- (c) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America acting pursuant to authority granted by the Congress of the United States, including, without limitation the following: Fannie Mae (excluding mortgage-backed securities valued at greater than par on the portion of unpaid principal and mortgage-backed securities representing payment of principal only or interest only with respect to the underlying loans); FHLMC, GNMA, Student Loan Marketing Association, or other successor agencies;
- (d) Obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- (e) Debt obligations (excluding obligations that do not have a fixed par value and/or the terms of which do not provide for payment of a fixed dollar amount at maturity or redemption) of any person, but only if such debt obligations are rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency;
- (f) Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities not in excess of one year) of any bank the short-term unsecured debt obligations of which are rated by each Rating Agency in the highest category for short-term obligations.
- (g) Certificates of deposit and time deposits which are fully insured as to principal and interest by the FDIC or the FSLIC;
- (h) Commercial paper having maturities not in excess of one year rated by each Rating Agency in the highest category for short-term obligations;
- (i) Money market funds rated by each Rating Agency in the highest category for money market funds;
- (j) Repurchase agreements the subject of which are obligations described in clauses (a), (b), (c) or (d) above, with: (i) any Person whose long-term unsecured general indebtedness is rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency, or if the term of such repurchase agreement does not exceed one year, whose short-term unsecured general indebtedness is rated by each Rating Agency in the highest category for short-term obligations; and (ii) with any member of the Association of Primary Dealers;
- (k) Investment agreements secured or unsecured as required by the Department, with any Person whose long-term unsecured general indebtedness is rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency or, if the term of such investment agreement does not exceed one year, whose short-term unsecured general indebtedness is rated by each Rating Agency in the highest category for short-term obligations; and
- (l) Investment securities described in any Supplemental Indenture the inclusion of which in the definition of Investment Securities for purposes of the Master Indenture will not adversely affect,

in and of itself, any rating then assigned to the Bonds by a Rating Agency, as evidenced by a letter from each such Rating Agency.

"Master Indenture" shall mean the Agency's Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987, pursuant to which the Bonds of each Series are authorized to be issued.

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

"Mortgage Certificate" shall mean a mortgage-backed security that evidences beneficial ownership of a mortgage pool, that satisfies the requirements of the applicable Series Supplement and that is purchased from amounts identified in the applicable Series supplement and pledged by the Department to the Trustee pursuant to the Indenture.

"Mortgage Lender" shall mean any bank or trust company, mortgage banker approved by the Federal National Mortgage Association, national banking association, savings bank, savings and loan association, non-profit corporation, mortgage company, the Department and 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) any loan, including a 1987A Mortgage Loan, a GNMA Mortgage Loan and a Fannie Mae Mortgage Loan, evidenced by a Mortgage Note and secured by a Mortgage which satisfies the requirements of the Trust Indenture, which is made, acquired or refinanced, directly or indirectly, from amounts in the Mortgage Loan Fund or other moneys of the Department, and which is pledged by the Department to the Trustee pursuant to the Trust Indenture; and (ii) any evidence of a participation in a loan described above, including a Mortgage Certificate.

"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 borrower, (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), (iii) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department, (iv) in the event of a default thereon by the borrower, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Department or by any other proceedings take by the Department, (v) from any special hazard insurance policy or standard hazard insurance policy covering mortgaged premises, (vi) from any Supplemental Mortgage Security, (vii) from any proceeds received from any private mortgage insurer, the FHA, the VA, the RHS or any other agency or instrumentality of the United States of America in respect of any primary mortgage insurance or guaranty of a Mortgage Loan, or (viii) from any payments on a Mortgage Certificate.

"Mortgage Note" shall mean any note, bonds or other instrument evidencing borrower's obligation to repay a Mortgage Loan.

"Mortgage Pool" shall mean, with respect to a Mortgage Certificate, the pool of Mortgage Loans the beneficial ownership of which is represented by such Mortgage Certificate, as described in the schedule of pooled Mortgages pertaining to such Mortgage Certificate.

"Mortgage Reserve Fund Requirement" shall mean, with respect to the outstanding Bonds as of any date of calculation, the greater of (a) an amount equal to the aggregate with respect to all Series of the amounts, if any, specified as the Mortgage Reserve Fund Requirement for each Series in the respective Series Supplement authorizing such Series, or (b) \$0.

"1987A Mortgage Loans" shall mean those FHA-insured Mortgage Loans which are owned by the Department and which were acquired with the proceeds of the Series 1987A Bonds.

"1989 Transferred Mortgage Assets" shall mean those Mortgage Certificates which are owned by the Department and which were acquired with the proceeds of the Refunded Bonds.

"1999 Mortgage Assets" shall mean the 1999 Mortgage Certificates and the 1989 Transferred Mortgage Assets.

"1999 Mortgage Certificates" shall mean the GNMA Certificates or Fannie Mae Certificates that evidence beneficial ownership of and a 100% participation in a Mortgage Pool, that satisfy the requirements of the Trust Indenture which are purchased by the Trustee from amounts available in the 1999 B/C/D Mortgage Loan Account and pledged by the Department to the Trustee pursuant to the Indenture and the Series 1999B Series Supplement.

"1999 Mortgage Loans" shall mean the loans included in each Mortgage Pool represented by a 1999 Mortgage Certificate.

"1999 B/C/D Cost of Issuance Account" shall mean the 1999 B/C/D Cost of Issuance Account of the Cost of Issuance Fund.

"1999 B/C/D Mortgage Loan Account" shall mean the 1999 B/C/D Mortgage Loan Account of the Mortgage Loan Fund.

"1999 B/C/D Special Redemption Account" shall mean the 1999 B/C/D Special Redemption Account of the Special Redemption Fund.

"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:

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

"Premium Term Bonds" shall mean the Series 1999B Bonds maturing July 1, 2021.

"Primary Custodial Account" shall mean the account established by the GNMA 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 GNMA Mortgage Loans are deposited for payment to the GNMA Paying Agent at the times specified in the GNMA Guide.

"Program" shall mean the several programs established by the Department pursuant to which the Department makes, acquires or refinances, directly or indirectly, Mortgage Loans or Mortgage Certificates.

"Program Participation Fees" shall mean all moneys, if any, received by the Department from borrowers, Mortgage Lenders and others as consideration for the Department's commitment to make, acquire or refinance, directly or indirectly, Mortgage Loans.

"PSA Prepayment Model" shall mean the standard or model developed by the Bond Markets Association (formerly the Public Securities Association) to measure prepayments on mortgage loans.

"Rating Agency" shall mean, as of any particular date, any nationally-recognized credit rating agency whose rating is then in effect with respect to the Bonds.

"Refunded Bonds" shall mean, collectively, the Series 1989A Bonds and the Series 1989B Bonds.

"Remarketing Agent" shall mean M.R. Beal & Company, or any successor remarketing agent appointed by the Department.

"RHS" shall mean the United States Department of Agriculture, Rural Housing Service, formerly known as Farmers Home Administration.

"Series" shall mean all Bonds designated as a Series in a Series Supplement and which are authenticated and delivered on original issuance in a simultaneous transaction, and all Bonds delivered in exchange for or in lieu of such Bonds.

"Series 1989A Bonds" shall mean the Agency's GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A.

"Series 1989B Bonds" shall mean the Agency's GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989B.

"Series 1999B Bonds" shall mean the Department's Residential Mortgage Revenue Bonds, Series 1999B.

"Series 1999C Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 1999C.

"Series 1999C Serial Bonds" shall mean the Series 1999C Bonds maturing on July 1 in each of the years 2003 through 2014, both inclusive.

"Series 1999D Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 1999D.

"Series 1999D Serial Bonds" shall mean the Series 1999D Bonds maturing on July 1 in each of the years 2000 through 2005, both inclusive, 2013, and 2014.

"Series 1999B Series Supplement" shall mean the Twelfth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1999, as amended from time to time.

"Series 1999C Series Supplement" shall mean the Thirteenth Supplemental Residential Mortgage Revenue Refunding Bond Trust Indenture, dated as of November 1, 1999, as amended from time to time.

"Series 1999D Series Supplement" shall mean the Fourteenth Supplemental Residential Mortgage Revenue Refunding Bond Trust Indenture, dated as of November 1, 1999, as amended from time to time.

"Series Supplement" shall mean a Supplemental Indenture providing for the issuance of a Series of Bonds, as the same may be amended from time to time.

"State" shall mean the State of Texas.

"Supplemental Indenture" shall mean any trust indenture supplemental to or amendatory of the Master Indenture, executed and delivered by the Agency or the Department and the Trustee in accordance with the Master Indenture.

"Supplemental Mortgage Security" shall mean (a) a mortgage pool insurance policy or any other form of credit enhancement with respect to all or any portion of the Mortgage Loans (including any mortgage pool self-insurance reserve established by the Department with respect to Mortgage Loans), other than insurance from the FHA, a guaranty from the VA, or private mortgage insurance on the portion of the principal balance of a Mortgage Loan which exceeds 80% of the lesser of the purchase price or appraised value of the mortgaged property or (b) any other form of credit enhancement, collateral or cashflow test specified as the Supplemental Mortgage Security for each Series in the respective Series Supplement authorizing such Series.

APPENDIX B

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

APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS

Introduction

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

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

FHA Insurance Programs

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

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

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

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

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

Department of Veterans Affairs Mortgage Guaranty Program

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

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

The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of the mortgaged premises is greater than the original guaranty, as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgagee of unsatisfied indebtedness on a mortgage upon its assignment to the VA. Under certain circumstances, a mortgagee is required to accept partial payments on a loan that is more than thirty (3) days overdue.

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

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

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

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

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

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

Private Mortgage Insurance Programs

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

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

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

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

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

Mortgage Pool Insurance

In lieu of establishing a mortgage pool self-insurance reserve with respect to any Bonds issued pursuant to the Master Indenture which are not secured by Mortgage Certificates, the Department may provide a mortgage pool insurance policy. The following is a general description of some of the pertinent provisions of the more common mortgage pool insurance now available. This description is only a brief outline and does not purport to summarize or describe all of the provisions of such policies.

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

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

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

of a default arising from or involving certain matters including (i) fraud or negligence in origination or servicing of the Mortgage Loans, including misrepresentation by the Mortgage Lender, borrower or other persons involved in the origination or servicing of the Mortgage Loans; (ii) failure to construct a property subject to a Mortgage Loan in accordance with specified plans; or (iii) physical damage to a property.

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

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

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

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

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

have been received (either from the mortgagor, FHA, VA, RHS, private mortgage insurance or through foreclosure) for which advances were previously made or if a claim under the policy is not filed. Claim settlements under a mortgage pool insurance policy will usually be reduced by the sum of unreimbursed claims advances.

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

Standard Hazard Insurance Policies

Each Mortgage Lender acting as a servicer will cause to be maintained by the mortgagor for each Mortgage Loan fire insurance with extended coverage on the mortgaged property (a "Standard Hazard Insurance Policy") in an amount which is not less than the maximum insurable value of the property or the principal balance owing on the Mortgage Loan, whichever is less. Subject to the laws of the State, any amounts collected by a Mortgage Lender under any such policy will be deposited in a custodial account subject to reimbursement. 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, 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 of 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. 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. 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 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. Even when such notice is properly given, the United States may redeem such property within 120 days from the date of the sale, upon payment of the amount paid or credited at the sale, and interest from the date of the sale, and any cost in owning property in excess of the derived income. The remedy of nonjudicial foreclosure may be limited, restricted or denied, not only by bankruptcy or other debtor relief proceedings, but also by the death of a mortgagor either without leaving a will or with probate proceedings that are not independent of the probate court or by the appointment of a receiver by the court in a divorce action involving mortgages to which the spouses in such divorce proceedings are parties. The remedies afforded the holder of the mortgage debt in the events set forth in the preceding sentence require judicial action either as a prerequisite to the valid exercise of nonjudicial foreclosure or in the nature of a judicial foreclosure proceeding or sale through the legal representative involved with the sanction of the court.

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

APPENDIX C-1

GNMA AND THE GNMA CERTIFICATES

APPENDIX C-1

GNMA AND THE GNMA CERTIFICATES

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

Government National Mortgage Association ("GNMA") 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 GNMA Certificates, the Servicer must first apply to and receive from GNMA the Commitment to Guarantee Mortgage Backed Securities (the "MBS Agreement"). The MBS Agreement authorizes the Servicer to apply to GNMA for the issuance of Mortgage-Backed Securities to be eligible for guaranty by GNMA up to a stated date and issue GNMA 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 GNMA 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 GNMA). Each GNMA I Certificate will be a "mortgage loan pass-through" certificate which will require the Servicer to pass through to the paying and transfer agent therefor (the "GNMA 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 GNMA Guaranty Fee and the Servicer's servicing fee, more fully described herein), whether or not the Servicer receives such payments, plus any prepayments of principal of the Mortgage Loans received by the Servicer in the previous month. Each GNMA II Certificate will require the Servicer to pass through to the central paying and transfer agent for the GNMA 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 GNMA Guaranty Fee and the Servicer's servicing fee, more fully described herein), whether or not the Servicer received such payments, plus any prepayments on the Mortgage Loan received by the Servicer in the previous month. The GNMA 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 Servicer. GNMA guarantees timely payment of principal of and interest with respect to the GNMA Certificate.

GNMA 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 USDA-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 GNMA and "would constitute general obligations of the United States backed by its full faith and credit."

GNMA, upon execution of the GNMA Guaranty appended to the GNMA Certificate and upon delivery of the GNMA Certificate to the Servicer, will have guaranteed to the Trustee as holder of the GNMA Certificate the timely payment of principal of and interest on the GNMA Certificate. In order to meet its obligations under such guaranty, GNMA, 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 GNMA, 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 GNMA Certificate. The Treasury is authorized to purchase any obligation so issued by GNMA 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 GNMA, if needed, to implement the aforementioned guaranty.

GNMA is required to warrant to the Trustee as the holder of the GNMA 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 GNMA 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 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 GNMA Mortgage Backed Securities Guide (the "Guide").

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

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

The Servicer is required to advise GNMA in advance of any impending default on scheduled payments so that GNMA 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 GNMA.

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

Payment of principal and interest on the GNMA 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 GNMA Certificate.

Each installment on the GNMA Certificate is required to be applied first to interest and then in reduction of the principal balance then outstanding on the GNMA Certificate. Interest is to be paid at the specified rate on the unpaid portion of the principal of the GNMA Certificate. The amount of principal due on the GNMA 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 Servicer is required to pay to the Trustee, as holder of the GNMA Certificate, monthly installments of not less than the interest due on the GNMA Certificate at the rate specified in the GNMA 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 GNMA Certificate.

Year 2000 Issues

Information regarding GNMA's efforts toward compliance with the Year 2000 matter is available on the World Wide Web at <http://www.ginniemae.gov/issuer/programs/y2k.htm>

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

Mortgage-backed Securities Program

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

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

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

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides") published by Fannie Mae, as modified by the Pool Purchase Contract (hereinafter defined), and, in the case of mortgage loans such as the Mortgage Loans, a Trust Indenture dated as of November 1, 1981, as amended (the "Fannie Mae Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The most recent Fannie Mae Prospectus is dated January 1, 1998 and is updated from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statements are available without charge from Investor Relations, Federal National Mortgage Association, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (800)237-8627) or on the World Wide Web at <http://www.fanniemae.com/markets/stock/index.html>. Information regarding Fannie Mae's efforts toward compliance with the Year 2000 matter is available on the World Wide Web at <http://www.fanniemae.com/year2000/index.html>

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 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 Servicer as of the date hereof.

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

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

Fannie Mae Certificates

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

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

Payments on Mortgage Loans; Distributions on Fannie Mae Certificates

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

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

APPENDIX D-1

AUDITED FINANCIAL STATEMENTS

OF THE

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

FOR THE FISCAL YEARS ENDED

AUGUST 31, 1998 and 1997

[Report of Independent Auditors]

**AUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEAR
ENDED AUGUST 31, 1999, WILL BE FILED WITH THE NRMSIRs
AND THE SID ON OR BEFORE FEBRUARY 28, 2000.**

**THE MOST RECENT AUDITED FINANCIAL STATEMENTS
OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE ENTERPRISE FUND
ARE ALSO AVAILABLE AT THE DEPARTMENT'S WEBSITE AT:
www.tdhca.state.tx.us**



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

Financial Statements

August 31, 1998 and 1997

(With Independent Auditors' Report Thereon)



111 Congress Avenue
Suite 1100
Austin, TX 78701

Telephone 512 320 5200

Telefax 512 320 5100

Independent Auditors' Report

The Governing Board
Texas Department of Housing and Community Affairs:

We have audited the accompanying balance sheets of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund as of August 31, 1998 and 1997, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended and supporting schedules 3 and 4 (supplementary information on pages 28 to 33). These financial statements and schedules are the responsibility of the management of the Texas Department of Housing and Community Affairs. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles and the supporting schedules 3 and 4 (supplementary information on pages 28 to 33), in our opinion, present fairly, in all material respects, the information set forth therein.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information by bond program included as schedules 1 and 2 is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual bond programs. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in note 1, the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund implemented Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective as of September 1, 1996, which changed its method of accounting for investments.

KPMG Peat Marwick LLP

October 30, 1998

Maury Mendonca & Company, P.C.

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

Balance Sheets

August 31, 1998 and 1997

Assets	1998	1997
Cash and temporary investments (notes 2 and 3):		
Cash on hand	\$ 200	200
Cash in bank	801,301	2,749,971
Cash in State Treasury	678,777	597,733
Short-term investments	117,380,894	69,633,924
Total cash and temporary investments	118,861,172	72,981,828
Investments, net (notes 2 and 3)	827,962,989	725,185,530
Receivables:		
Interest receivable	6,554,346	7,167,963
Notes receivable - related party	1,000,000	1,000,000
Mortgage loans receivable, net (notes 3 and 4)	412,985,859	430,268,692
Consumable inventories	8,207	7,735
Real estate owned, net (notes 3 and 5)	499,062	1,061,648
Fixed assets:		
Furniture and equipment	1,560,956	1,490,498
Less accumulated depreciation	(847,370)	(684,026)
Deferred issuance costs, net (note 6)	13,158,784	12,989,649
Due from other funds	-	4,597
Other assets	316,132	386,280
	\$ 1,382,060,137	1,251,860,394
Liabilities and Fund Equity		
Accounts payable	\$ 674,042	878,260
Deferred revenues	5,663,660	5,798,360
Revenue bonds payable (notes 2, 3, 4 and 6)	1,204,741,110	1,124,772,775
Commercial paper notes payable	34,460,000	20,555,000
Accrued interest payable	23,476,193	21,748,351
Due to other funds	41,444	-
Employees compensable leave	215,086	215,086
Other liabilities	44,974,840	14,743,725
Total liabilities	1,314,246,375	1,188,711,557
Fund equity - retained earnings, restricted (note 3)	67,813,762	63,148,837
Commitments and contingencies (notes 9, 10 and 11)	\$ 1,382,060,137	1,251,860,394

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Fund Equity

August 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Operating revenues:		
Interest and investment income	\$ 89,261,077	88,129,563
Other operating revenues	3,753,792	2,997,133
Total operating revenues	<u>93,014,869</u>	<u>91,126,696</u>
Operating expenses:		
Salaries and wages	2,883,535	2,726,977
Payroll related costs	574,561	570,544
Professional fees and services	411,274	740,334
Travel	129,075	166,014
Materials and supplies	135,134	134,206
Communication and utilities	101,167	95,973
Repairs and maintenance	125,328	122,008
Rentals and leases	318,146	307,795
Printing and reproduction	33,669	22,741
Depreciation and amortization	765,097	686,742
Interest expense	80,519,117	79,712,269
Other operating expenses	2,129,110	3,926,372
Total operating expenses	<u>88,125,213</u>	<u>89,211,975</u>
Operating income	4,889,656	1,914,721
Realized and unrealized gains on investments	457,347	4,427,931
Loss on early extinguishment of debt	(1,324,384)	(1,387,830)
Operating transfers from (to) the Department	642,306	(478,573)
Net income	<u>4,664,925</u>	<u>4,476,249</u>
Fund equity at beginning of year, as previously reported	63,148,837	49,732,345
Change in accounting for investments (note 1)	-	8,940,243
Fund equity at beginning of year, as restated	<u>63,148,837</u>	<u>58,672,588</u>
Fund equity at end of year	<u>\$ 67,813,762</u>	<u>63,148,837</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

August 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Proceeds from loan programs	\$ 124,510,567	90,274,915
Proceeds from other revenues	2,617,411	4,728,380
Payments to suppliers for goods and services	(3,671,436)	(6,155,599)
Payments to employees	(3,458,096)	(3,297,521)
Payments for loans funded	(46,560,143)	(42,816,983)
Net cash provided by operating activities	<u>73,438,303</u>	<u>42,733,192</u>
Cash flows from non-capital financing activities:		
Proceeds from debt issuance	222,020,000	269,545,000
Payments for other costs of debt	(2,666,447)	(2,511,800)
Transfers from (to) other funds	642,306	(478,573)
Proceeds from (payments to) other funds	41,444	(47,166)
Payments of principal on debt	(130,383,340)	(228,583,094)
Payments of interest	(76,361,206)	(76,486,374)
Net cash provided by (used in) non-capital financing activities	<u>13,292,757</u>	<u>(38,562,007)</u>
Cash flows from capital and related financing activities:		
Payments for additions to fixed assets	(134,262)	(334,291)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	380,954,929	414,991,574
Proceeds from interest and investment income	61,949,566	59,188,055
Payments to acquire investments	(483,621,949)	(509,894,621)
Net cash used in investing activities	<u>(40,717,454)</u>	<u>(35,714,992)</u>
Net increase (decrease) in cash and cash equivalents	45,879,344	(31,878,098)
Cash and cash equivalents at beginning of year	<u>72,981,828</u>	<u>104,859,926</u>
Cash and cash equivalents at end of year	<u>\$ 118,861,172</u>	<u>72,981,828</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

August 31, 1998 and 1997

	1998	1997
Reconciliation of cash from operating activities to operating income:		
Operating income	\$ 4,889,656	1,914,721
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation	765,097	686,742
Provision for estimated losses	62,011	2,157,300
Operating income and cash flow categories - classification differences	17,537,233	20,908,208
Changes in assets and liabilities:		
Decrease in accrued interest receivable	613,617	194,386
Decrease in loans	17,282,833	4,893,981
(Increase) decrease in mortgage loan acquisition costs	(169,135)	453,868
(Decrease) increase in deferred revenues	(134,700)	1,430,764
Increase in other assets and liabilities, net	30,863,849	8,956,437
Increase in accrued interest payable	1,727,842	1,136,785
Net cash provided by operating activities	\$ 73,438,303	42,733,192

During 1998 and 1997, loans totaling \$1,767,239 and \$2,629,300 were foreclosed, respectively, and the related properties acquired were transferred to real estate owned.

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 1998 and 1997

(1) General Statement and Significant Accounting Policies

General Statement

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

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

The Revenue Bond Enterprise Fund is composed of nine separate enterprise funds in 1998 and 1997 and operates several bond programs under separate trust indentures as follows:

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

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

Notes to Financial Statements

August 31, 1998 and 1997

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

GNMA Collateralized Home Mortgage Revenue Bond Programs (GNMA) - These bonds were issued pursuant to two separate trust indentures and are secured by individual trust estates, which are not on an equal and ratable basis with each other. The bonds were sold through two separate private placement transactions with Federal National Mortgage Association (FNMA). The proceeds were used by the Department to redeem previously issued bonds and to finance mortgage loans through the acquisition of GNMA certificates and were reserved to finance the purchase by eligible borrowers of real estate owned by financial institutions in the State or by the Department.

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

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

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

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

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

Notes to Financial Statements

August 31, 1998 and 1997

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

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

Continuance Subject to Review

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2001 unless continued in existence as provided in the Texas Sunset Act. If abolished, the Department may continue in existence until September 1, 2002 to close out its operations.

Significant Accounting Policies

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

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

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

Notes to Financial Statements

August 31, 1998 and 1997

- (b) Investments - Effective September 1, 1996, the Revenue Bond Enterprise Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, (GASB Statement 31), which changed the manner in which certain investments are valued and affects the way in which unrealized gains and losses are recognized for financial reporting purposes. GASB Statement 31 requires investments to be reported at fair value in the balance sheet. The Revenue Bond Enterprise Fund utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. Fair value of the Revenue Bond Enterprise Fund's securitized mortgage loans (GNMA/FNMA) has been estimated by each bond issue's trustee using a pricing service. The impact of adopting GASB Statement 31 as of September 1, 1996 was \$8,940,243.

The Revenue Bond Enterprise Fund has reported all investment securities at fair value as of August 31, 1998 and 1997, with exception of certain money market investments and nonparticipating interest-earning investment contracts which are reported at amortized cost (historical cost adjusted for amortization of premiums and accretion of discounts) provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors (note 2).

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

- (c) Mortgage-Backed Securities - The Revenue Bond Enterprise Fund's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities or mortgage pass-through certificates.
- (d) Loans Receivable - Loans receivable are carried at the unpaid principal balance outstanding, less the allowance for estimated loan losses and deferred commitment fees. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status when the Department becomes aware that the borrower has entered bankruptcy proceedings or when they are past due 90 days as to either principal or interest or when payment in full of principal and interest is not expected. Deferred commitment fees are recognized using the interest method over the estimated lives of the single-family loans and the contractual lives, adjusted for actual repayments, of the multifamily loans.

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

Notes to Financial Statements

August 31, 1998 and 1997

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

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

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

- (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.

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

Notes to Financial Statements

August 31, 1998 and 1997

- (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) Fund Equity - The fund equity of the Revenue Bond Enterprise Fund is restricted for various purposes of the bond trust indentures and other purposes as designated by the Governing Board.
- (k) 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.
- (l) Interfund Transactions - The Revenue Bond Enterprise Fund has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another. They are accounted for as revenue or expense. All other interfund transactions are reported as transfers.
- (m) Gain/Loss on Refundings - Any gain/loss on refunding of bonds is deferred and amortized as a component of interest expense using the interest method.

(2) Cash and Cash Equivalents, Investments and Mortgage-Backed Securities

At August 31, 1998 and 1997, the Revenue Bond Enterprise Fund had cash and cash equivalents, investments and mortgage-backed securities as follows (amounts in thousands):

	Fair Value	
	1998	1997
Cash and Cash Equivalents		
Cash	\$ 1,008	2,672
Money market accounts	472	676
Mutual funds	2,025	2,006
Commercial paper	-	55
Guaranteed investment contracts	50,797	38,004
Repurchase agreements	63,952	29,281
U.S. Treasury securities	607	288
	\$ 118,861	72,982

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

Notes to Financial Statements

August 31, 1998 and 1997

Investments	<u>1998</u>	<u>1997</u>
Guaranteed investment contracts	\$ 190,545	123,730
U.S. Treasury securities	25,343	33,525
Mortgage-backed securities	612,075	567,931
	<u>\$ 827,963</u>	<u>725,186</u>

At August 31, 1998 and 1997, the Revenue Bond Enterprise Fund's bank deposits amounted to \$801,301 and \$2,749,971, respectively, with bank balances of \$801,301 and \$2,749,971, respectively. Of those amounts, \$165,437 in 1998 and \$1,765,393 in 1997, were in a depository fully collateralized by securities held with a Trustee in the Department's name or covered by Federal Deposit Insurance Corporation (FDIC) insurance coverage. Collateralized cash held by and in the name of paying agents, trustees and depositories amounted to \$635,864 in 1998 and \$984,578 in 1997.

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

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

Notes to Financial Statements

August 31, 1998 and 1997

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$221,439,423 and 9,939,012 of investment agreements at August 31, 1998 and 1997, respectively, which are unsecured. The Department has some Category 3 investments that are comprised of investment agreements/contracts entered into by the Department with counterparty whose rating on long-term, unsecured, unsubordinated debt obligations must be maintained at "AAA" by Standard & Poor's "Aaa" by Moody's, and/or other comparable high rating during the term of the Agreement/Contract. Should the rating fall below the requirement, the counterparty shall either substitute an acceptable Replacement Guarantor, deliver Collateral, or repay the principal of and accrued but unpaid interest on the investment. A summary of investments by type at August 31, 1998 and 1997 is as follows (amounts in thousands):

	Fair Value	
	1998	1997
Repurchase and other investment agreements	\$ 305,294	191,015
Pass-through certificates	612,075	567,931
Other U.S. Government securities	25,950	33,813
Mutual funds *	2,025	2,006
Commercial paper	-	55
Total investments	\$ 945,344	794,820

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

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

Notes to Financial Statements

August 31, 1998 and 1997

Repurchase agreements and other qualified investment agreements with a carrying amount of \$305,294,290 at August 31, 1998 and \$191,015,347 at August 31, 1997 are generally secured by U.S. government obligations or other marketable securities with market values in excess of the cost. At August 31, 1998 and 1997, the agreements were with the following counterparties (amounts in thousands):

Counterparty	1998	1997
A.G. Langston	\$ 3,753	3,886
Scott Fetzer Financial	1,000	1,000
American International Group	-	3,436
Citicorp	2,784	4,978
Berkshire Hathaway	11,651	5,850
Morgan Stanley	9,045	50,936
Morgan Guaranty	-	388
FGIC	61,341	58,834
Eastbridge	-	25,395
Core States Bank	361	315
CitiBank	1,248	344
Protective Life	1,781	1,780
Capital Market Services	-	12,165
Chase	4,337	9,855
Lehman Brothers	1,048	1,048
Norwest Bank	-	610
Societe Generale	3,688	3,042
Westdeutsche Bank	6,520	7,153
Daiwa	60,199	-
GE Capital	12,795	-
AIG Matched Funding Corp.	104,065	-
CDC Funding Corp.	19,678	-
	<u>\$ 305,294</u>	<u>191,015</u>

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

Notes to Financial Statements

August 31, 1998 and 1997

(3) Restricted Assets

Mortgage-backed securities, loans receivable and real estate owned are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishment of funds and accounts for the segregation of assets and restricting the use of bond proceeds and other funds in connection with each bond program. Such restricted assets, primarily investments, are as follows at August 31, 1998 (amounts in thousands):

Program	Mortgage and Debt Service Reserve	Unspent Bond Proceeds	Revenue Fund	Self- Insurance	Rebate Fund
Single-family	\$ 22,848	123,845	48,869	3,753	1,418
RMRB	4,878	-	2,398	401	-
GNMA	-	-	410	-	-
CHMRB	-	-	6,205	-	-
Multifamily	1,253	-	1,354	-	-
93 SF CHMRB	-	-	1,238	-	5
94/95 SF CHMRB	-	-	537	-	-
Commercial Paper	-	-	-	-	125
Total	\$ 28,979	123,845	61,011	4,154	1,548

(4) Loans Receivable

Loans receivable as of August 31, 1998 and 1997 consisted of the following (amounts in thousands):

	1998	1997
Single-family loans	\$ 206,764	245,737
Multifamily loans	209,489	188,272
RMRB (1987 Series A) single-family loans	7,620	8,608
Miscellaneous loans	133	135
Total loans	424,006	442,752
Deferred commitment fees, net of accumulated amortization of \$35,597 in 1998 and \$34,548 in 1997	(4,850)	(5,899)
Allowance for estimated loan losses	(6,170)	(6,584)
Total	\$ 412,986	430,269

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

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

Notes to Financial Statements

August 31, 1998 and 1997

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 percent 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, 1998.

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

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

	<u>1998</u>	<u>1997</u>
Balance at beginning of year	\$ 6,584	4,884
Provision for estimated losses on loans	-	1,700
Charge-offs of loans	(414)	-
Balance at end of year	<u>\$ 6,170</u>	<u>6,584</u>

(5) Real Estate Owned

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

	<u>1998</u>	<u>1997</u>
Real estate owned	\$ 682	1,318
Allowance for estimated losses	(183)	(256)
Real estate owned, net	<u>\$ 499</u>	<u>1,062</u>

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

Notes to Financial Statements

August 31, 1998 and 1997

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

	1998	1997
Balance at beginning of year	\$ 256	510
Amounts recovered (charged off)	(60)	93
Reduction of allowance for losses on real estate owned	(13)	(347)
Balance at end of year	\$ 183	256

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

(6) Bonds Payable

Bonds payable activity for the year ended August 31, 1998 consisted of the following (amounts in thousands):

	Original Face Amount	Balance 8/31/97	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/98	Final Maturity Date
Single-family:						
1987 Series B-5% to 8.2%	\$ 77,700	22,255	-	22,255	-	2016
1991 Series A-4.8% to 7.15%	81,605	39,185	-	4,120	35,065	2012
1994 Series A/B-8.1% to 9.5%	60,995	44,125	-	16,260	27,865	2016
1994 Series A-7%	34,393	19,691	1,352	2,860	18,183	2015
1995 Series A-4.15% to 6.15%	85,760	85,620	-	2,040	83,580	2007
1995 Series B-4.95% to 5.4%	9,605	9,420	-	470	8,950	2008
1995 Series C-6.44% to 7.76%	71,760	59,215	-	5,815	53,400	2017
1996 Series A-4.5% to 6.3%	15,000	12,330	-	2,105	10,225	2028
1996 Series B-5.5% to 6%	42,140	42,140	-	1,475	40,665	2017
1996 Series C-8.3%	2,000	2,000	-	-	2,000	2017
1996 Series D-5.45% to 6.25%	70,760	69,390	-	30	69,360	2028
1996 Series E-3.9% to 6%	98,730	95,405	-	7,185	88,220	2017
1997 Series A-5.25% to 5.80%	44,465	-	44,465	-	44,465	2029
1997 Series B-5.45%	9,510	-	9,510	-	9,510	2019
1997 Series C-6.80%	25,525	-	25,525	-	25,525	2029
1997 Series D-5.65% to 5.70%	44,795	-	44,795	-	44,795	2029
1997 Series E-4.50% to 5.00%	20,295	-	20,295	875	19,420	2016
1997 Series F-6.77%	20,000	-	20,000	-	20,000	2029
Total principal amount		500,776	165,942	65,490	601,228	
Unamortized discount and losses on refundings		(7,193)			(7,200)	
Total single-family		493,583			594,028	

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

Notes to Financial Statements

August 31, 1998 and 1997

	Original Face Amount	Balance 8/31/97	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/98	Final Maturity Date
RMRB:						
1987 Series A-6.75% to 9.13%	\$ 30,000	5,560	-	1,745	3,815	2019
1987 Series D-7.5% to 8.4%	47,000	25,830	-	2,410	23,420	2021
1988 Series A-6.5% to 7.6%	40,920	35,170	-	755	34,415	2018
1989 Series A-6.6% to 7.6%	44,000	15,730	-	4,265	11,465	2016
1989 Series B-7.85%	45,000	16,240	-	4,180	12,060	2018
Total RMRB		<u>98,530</u>	<u>-</u>	<u>13,355</u>	<u>85,175</u>	
GNMA:						
1989 Series A-8.49%	72,000	18,093	-	2,949	15,144	2019
1989 Series B-7.805%	48,250	20,957	-	2,499	18,458	2021
Total GNMA		<u>39,050</u>	<u>-</u>	<u>5,448</u>	<u>33,602</u>	
CHMRB:						
1990 Series A-6.3% to 7.35%	46,600	2,500	-	810	1,690	2011
1990 Series B-7.8%	93,445	31,835	-	4,160	27,675	2023
1991 Series A - 5.25% to 6.95%	36,000	23,990	-	2,660	21,330	2023
1992 Series A and B - Linked Rate averaging 6.90%	59,500	34,800	-	3,600	31,200	2024
1992 Series C - Linked Rate averaging 6.90%	72,700	72,700	-	-	72,700	2024
Total principal		<u>165,825</u>	<u>-</u>	<u>11,230</u>	<u>154,595</u>	
Plus unamortized premium		<u>2,833</u>			<u>2,700</u>	
Total CHMRB		<u>168,658</u>			<u>157,295</u>	
SF MRB CHMRB						
1993 Series A-5.85%	11,695	10,430	-	1,060	9,370	2025
1993 Series B-6.62%	15,000	13,265	-	955	12,310	2025
1993 Series C-6.68%	15,000	13,780	-	890	12,890	2025
1993 Series D-6.76%	8,000	6,520	-	595	5,925	2025
1993 Series E-6.85%	8,780	5,520	-	525	4,995	2025
1994 Series A-6.85%	35,395	33,500	-	2,080	31,420	2026
1994 Series B-6.4%	33,385	32,590	-	2,335	30,255	2026
1994 Series C-6.25%	15,360	15,305	-	1,685	13,620	2026
1995 MRRB Series A-6.26%	5,825	4,305	-	765	3,540	2015
1995 MRRB Series B-5.7%	2,030	1,300	-	650	650	2010
Total SF MRB CHMRB		<u>136,515</u>	<u>-</u>	<u>11,540</u>	<u>124,975</u>	

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

Notes to Financial Statements

August 31, 1998 and 1997

	<u>Original Face Amount</u>	<u>Balance 8/31/97</u>	<u>Additions/ Accretions</u>	<u>Maturities/ Prepayments</u>	<u>Balance 8/31/98</u>	<u>Final Maturity Date</u>
Multifamily:						
1984 Series A and B Variable Rate Demand Multifamily (letter of credit/surety bond program) variable rate currently at 5.25%	\$ 34,400	34,400	-	7,925	26,475	2006
Series 1984 (Allied Bank Private Placement-Summer Bend at Las Colinas) -variable rate currently at 8%	10,100	8,720	-	120	8,600	1999
1987 Series (South Texas Rental Housing) - 9.5%	1,400	1,183	-	36	1,147	2012
1993 Series A and B Refunding (High Point III Development/ Remington Hill Development) - 2.41% in 1994 and 2.45% in 1993	26,370	26,370	-	13,880	12,490	2023
1993 Residential Rental (National Center)	16,775	15,990	-	265	15,725	2024
1996 Series A and B (Brighton's Mark) - 6.13%	9,748	9,906	269	97	10,078	2026
1996 Series A and B (Marks of Las Colinas) - 5.65%	14,870	15,091	378	137	15,332	2026
1996 Series A and B (Braxton's Mark) - 5.81%	14,274	14,493	374	136	14,731	2026
1996 Series A,B,C and D (Dallas- Ft. Worth) - 6% to 10%	22,150	22,030	-	255	21,775	2026
1996 Series A,B,C and D (Harbors and Plumtree) - 5.9% to 10%	13,050	12,975	-	150	12,825	2026
1996 Series A and B (NHP Foundation) - 5.50% to 6.4%	27,560	27,405	-	320	27,085	2027
1997 Series (Meadow Ridge) - 5.05% to 5.55%	13,575	-	13,575	-	13,575	2030
1998 Series (Pebble Brook) - 4.95% to 5.60%	10,900	-	10,900	-	10,900	2030
1998 Series A, B, and C (Residence Oaks) - 5.98% to 7.18%	8,200	-	8,200	-	8,200	2030
1998 Series (Volente) - 5.00% to 5.63%	10,850	-	10,850	-	10,850	2031
Total principal amount		188,563	44,546	23,321	209,788	
Unamortized discount		(126)			(122)	
Total Multifamily		188,437			209,666	
Total		1,124,773			1,204,741	

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

Notes to Financial Statements

August 31, 1998 and 1997

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

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

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

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

The GNMA/CHMRB Program currently has a deficit in fund equity of approximately \$188,000. Management intends to evaluate the ability of the trust estate to provide for future cash flow in amounts sufficient to meet the debt service requirements of the bonds. The bonds in this Program are insured by GNMA/FNMA for the timely scheduled payment of all principal and interest on the bonds.

During fiscal year 1998, the Department initiated a current refunding of debt. The 1987 Single-family Series B were refunded with the proceeds of the 1997 Single-family Series E. This refunding transaction resulted in deferred losses of \$699,072, which will be recognized over the life of the new debt issuance, in accordance with GASB Statement 23. During the current period, the Revenue Enterprise Bond Fund recognized \$10,818 of amortization. The Revenue Enterprise Bond Fund recognized an economic gain of \$4,824,721 from the refunding transaction.

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

Notes to Financial Statements

August 31, 1998 and 1997

During fiscal year 1997, the Department initiated a refunding of debt. The 1986 Single Family MRB Series A bonds were refunded with the proceeds of the 1996 Single Family MRB Series B. The 1986 Single Family MRB Series B, the remaining portion of the 1985 Single Family MRB Series B, and the Single Family MRB Series C were refunded with the proceeds of the 1996 Single Family MRB Series E. These refunding transactions resulted in deferred losses of \$1,670,333 and \$3,073,055, respectively, which will be recognized over the life of the new debt issuances, in accordance with GASB Statement 23. During the current period, the Revenue Enterprise Bond Fund recognized \$123,024 and \$154,235 of the deferrals, respectively. The Revenue Enterprise Bond Fund recognized economic gains of \$8,859,000 and \$1,855,000 from the refunding transactions, respectively.

Bond contractual maturities (principal only) at August 31, 1998 are as follows (amounts in thousands):

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 6,525	6,880	7,230	6,365	5,360	568,868	601,257
RMRB	1,270	970	885	655	705	80,690	85,175
GNMA	4,669	4,004	3,436	2,951	2,535	16,007	33,602
CHMRB	805	855	880	290	-	276,740	279,570
Multifamily	1,235	1,323	1,795	1,953	2,011	201,470	209,788
Total	<u>\$ 14,504</u>	<u>14,032</u>	<u>14,226</u>	<u>12,214</u>	<u>10,611</u>	<u>1,143,775</u>	<u>1,209,362</u>

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

Bond maturities (principal and interest) at August 31, 1998 are as follows (amounts in thousands):

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 42,576	42,590	42,571	41,306	39,998	1,151,069	1,360,110
RMRB	7,964	7,567	7,408	7,108	7,109	162,310	199,466
GNMA	7,297	6,265	5,383	4,628	3,980	25,336	52,889
CHMRB	19,750	19,745	19,711	19,072	18,768	679,709	776,755
Multifamily	14,404	14,412	14,796	14,840	14,787	408,880	482,119
Total	<u>\$ 91,991</u>	<u>90,579</u>	<u>89,869</u>	<u>86,954</u>	<u>84,642</u>	<u>2,427,304</u>	<u>2,871,339</u>

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

Notes to Financial Statements

August 31, 1998 and 1997

Deferred issuance costs at August 31, 1998 and 1997 consisted of the following (amounts in thousands):

		1998	1997
Deferred issuance costs	\$	24,343	23,607
Less: accumulated amortization		(11,184)	(10,617)
	\$	13,159	12,990

(7) Employee Benefits

Plan Description - The Department contributes to the Employees Retirement System of Texas (the System), a public employee retirement system. 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 governmental employers. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Subtitle B, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207 or by calling (512) 476-6431.

Funding Policy - Under provisions in State law, plan members are required to contribute 6.0% of their annual covered salary and the Department contributes an amount equal to 6.0% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ending August 31, 1998, 1997, and 1996 were \$228,000, \$195,000 and \$176,000, respectively, equal to the required contributions for each year.

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

Notes to Financial Statements

August 31, 1998 and 1997

(8) Segment Financial Data

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 1998 and for the year then ended is as follows (amounts in thousands):

1998					
Programs	Operating Revenues	Depreciation/ Amortization	Operating Income (Loss)	Operating Transfers In (Out)	Net Income (Loss)
Single-family	\$ 45,633	229	5,735	(3,137)	965
RMRB	7,929	47	600	(64)	645
GNMA	3,214	40	96	(125)	(248)
CHMRB	12,047	31	600	(93)	1,202
Multifamily	12,292	89	483	(686)	(200)
GNMA/CHMRB	3,483	6	343	(62)	324
SF CHMRB 1994/1995	6,482	7	1,035	(202)	967
Commercial Paper	688	89	(94)	33	(61)
Operating	1,247	227	(3,908)	4,978	1,070
Total	\$ 93,015	765	4,890	642	4,664

1998					
Programs	Net Working Capital	Total Assets	Fund Equity	Bonds Payable	PP&E Additions
Single-family	\$ 42,528	663,211	45,133	594,028	-
RMRB	1,274	95,978	8,932	85,175	-
GNMA	727	36,084	1,962	33,602	-
CHMRB	1,068	161,206	299	157,295	-
Multifamily	11,378	254,353	1,691	209,666	-
GNMA/CHMRB	1,272	45,565	(188)	45,490	-
SF CHMRB 1994/1995	1,152	80,979	908	79,485	-
Commercial Paper	34,608	34,830	98	34,460	-
Operating	7,258	9,854	8,979	-	134
Total	\$ 101,265	1,382,060	67,814	1,239,201	134

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

Notes to Financial Statements

August 31, 1998 and 1997

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 1997 and for the year then ended is as follows (amounts in thousands):

1997					
Programs	Operating Revenues	Depreciation/ Amortization	Operating Income (Loss)	Operating Transfers In (Out)	Net Income (Loss)
Single-family	\$ 43,192	241	5,223	(1,437)	1,640
RMRB	8,769	48	544	(83)	3,400
GNMA	3,618	42	113	(173)	955
CHMRB	13,159	34	681	(272)	1,490
Multifamily	12,279	112	363	(846)	(393)
GNMA/CHMRB	3,253	6	(114)	(208)	(285)
SF CHMRB 1994/1995	5,354	7	(570)	(757)	(1,303)
Commercial Paper	547	7	(47)	38	(9)
Operating	956	190	(4,278)	3,259	(1,019)
Total	\$ 91,127	687	1,915	(479)	4,476

1997					
Programs	Net Working Capital	Total Assets	Fund Equity	Bonds Payable	PP&E Additions
Single-family	\$ 17,159	560,015	44,168	493,584	-
RMRB	1,091	109,007	8,288	98,530	-
GNMA	900	41,867	2,210	39,050	-
CHMRB	612	172,045	(903)	168,658	-
Multifamily	3,866	201,111	1,891	188,436	-
GNMA/CHMRB	1,170	49,507	(511)	49,515	-
SF CHMRB 1994/1995	5,119	88,268	(61)	87,000	-
Commercial Paper	20,676	20,885	159	20,555	-
Operating	6,942	9,155	7,908	-	434
Total	\$ 57,535	1,251,860	63,149	1,145,328	434

(9) Commitments and Contingencies

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

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

Notes to Financial Statements

August 31, 1998 and 1997

(10) Risk Financing and Related Insurance Issues

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. It is the Department's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. Currently there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities, except the Department carried Public Official Liabilities Insurance coverage in the amount of \$5,000,000, errors and omissions insurance of \$1,000,000 related to loan servicing for others, and \$300,000 public employee fidelity bond.

(11) Subsequent Events

On November 6, 1998, the Department issued \$141,970,000 in residential mortgage revenue bonds made up as follows:

\$ 102,055,000 1998 Series A
\$ 14,300,000 1998 Series B
\$ 25,615,000 1999 Series A

The Series 1998A bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates and for paying a portion of the Costs of Issuance of the Series 1998/1999A bonds. The mortgage certificates will be guaranteed as to timely payment of principal and interest by either GNMA or FNMA. The Series 1998B bonds are being issued to refund and redeem an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A. The proceeds of the Series 1999A bonds, together with other funds available under the Trust Indenture, will be deposited and applied for the primary purpose of refunding and redeeming, within 90 days after the delivery thereof, all of the outstanding Texas Housing Agency Residential Mortgage Revenue Bonds, Series 1987A and 1987D.

(12) Related Party Transactions

The Department utilizes the Texas State Affordable Housing Corporation (the Corporation) as a master servicer for various bond programs. The Corporation currently services approximately \$30,200,000 of the Department's outstanding loans.

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

Supplemental Schedule - Balance Sheet Information by Program

August 31, 1998

Assets	Single-family Program	RMRB Program	GNMA Program	1993 GNMA/CIIMRB Program	CHMRB Program	Multifamily Program	1994/1995 CIIMRB Program	Commercial Paper Program	Operating Fund	Total
Cash and temporary investments:										
Cash on hand	\$ -	-	-	-	-	-	-	-	200	200
Cash in bank	51,384	5,712	2	-	870	735,864	-	-	7,469	801,301
Cash in State Treasury	-	-	-	-	-	-	-	-	678,777	678,777
Short-term investments	57,927,550	1,779,769	728,544	1,268,058	1,007,943	11,810,181	1,135,085	34,585,150	7,138,614	117,380,894
Investments, net	396,098,660	84,960,733	34,896,138	43,636,216	157,552,325	31,895,854	78,923,063	-	-	827,962,989
Receivables:										
Interest receivable	3,326,477	612,847	234,408	253,285	917,000	569,844	452,569	170,373	17,543	6,554,346
Note receivable - related party	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Mortgage loans receivable, net	197,930,806	7,088,016	-	-	-	207,833,781	-	-	133,256	412,985,859
Consumable inventories	-	-	-	-	-	-	-	-	8,207	8,207
Real estate owned, net	376,993	122,069	-	-	-	-	-	-	-	499,062
Fixed assets:										
Furniture and equipment	-	-	-	-	-	-	-	-	1,560,956	1,560,956
Less accumulated depreciation	-	-	-	-	-	-	-	-	(847,370)	(847,370)
Deferred issuance costs, net	7,342,877	1,405,355	224,972	407,987	1,727,757	1,507,183	467,717	74,936	-	13,158,784
Due from other funds	-	-	-	-	-	-	-	-	-	-
Other assets	156,735	2,808	-	-	-	300	-	-	156,289	316,132
Total assets	\$ 663,211,482	95,977,309	36,084,064	45,565,546	161,205,895	254,353,007	80,978,434	34,830,459	9,853,941	1,382,060,137
Liabilities and Fund Equity (Deficit)										
Liabilities:										
Accounts payable	\$ 73,972	6,728	160	1,922	1,871	1,157	2,172	1,548	584,512	674,042
Deferred revenues	1,904,997	744,972	283,210	-	2,730,481	-	-	-	-	5,663,660
Revenue bonds payable	594,028,310	85,175,000	33,602,384	45,490,000	157,295,219	209,665,197	79,485,000	-	-	1,204,741,110
Commercial paper notes payable	-	-	-	-	-	-	-	34,460,000	-	34,460,000
Accrued interest payable	18,702,980	1,117,539	236,030	247,234	855,945	1,737,090	433,208	146,167	-	23,476,193
Employees compensable leave	-	-	-	-	-	-	-	-	215,086	215,086
Due to other funds	-	-	-	-	-	-	-	-	41,444	41,444
Other liabilities	3,368,839	625	-	14,297	23,158	41,257,939	150,447	125,150	34,385	44,974,840
Total liabilities	618,079,098	87,044,864	34,121,784	45,753,453	160,906,674	252,661,383	80,070,827	34,732,865	875,427	1,314,246,375
Fund equity (deficit) retained earnings, restricted	45,132,384	8,932,445	1,962,280	(187,907)	299,221	1,691,624	907,607	97,594	8,978,514	67,813,762
Total liabilities and fund equity	\$ 663,211,482	95,977,309	36,084,064	45,565,546	161,205,895	254,353,007	80,978,434	34,830,459	9,853,941	1,382,060,137

See accompanying independent auditors' report.

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

Supplemental Schedule - Statement of Revenues, Expenses and Changes in Fund Equity (Deficit) Information by Program

August 31, 1998

Assets	Single-family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
Operating revenues:										
Interest and investment income	\$ 43,815,828	7,765,725	3,058,654	3,482,725	11,878,279	11,667,271	6,458,902	687,840	445,853	89,261,077
Other operating revenues	1,816,918	163,021	155,559	-	169,050	624,715	23,580	-	800,949	3,753,792
Total operating revenues	45,632,746	7,928,746	3,214,213	3,482,725	12,047,329	12,291,986	6,482,482	687,840	1,246,802	93,014,869
Operating expenses:										
Salaries and wages	-	-	-	-	-	-	-	-	2,883,535	2,883,535
Payroll related costs	-	-	-	-	-	-	-	-	574,561	574,561
Professional fees and services	27,752	23,500	3,000	1,238	2,590	260	567	-	352,367	411,274
Travel	-	-	-	-	-	-	-	-	129,075	129,075
Materials and supplies	-	-	-	-	-	-	-	-	135,134	135,134
Communication and utilities	-	-	-	-	-	-	-	-	101,167	101,167
Repairs and maintenance	-	-	-	-	-	-	-	-	125,328	125,328
Rentals and leases	-	-	-	-	-	-	-	-	318,146	318,146
Printing and reproduction	-	-	-	-	1,565	-	-	-	32,104	33,669
Depreciation and amortization	228,635	46,799	40,375	5,894	31,261	89,388	6,953	88,628	227,164	765,097
Interest expense	38,212,188	7,185,694	3,060,676	3,104,180	11,277,766	11,589,554	5,408,506	680,553	-	80,519,117
Other operating expenses	1,429,374	72,962	14,534	28,150	133,783	129,903	31,371	12,770	276,263	2,129,110
Total other expenses	39,897,949	7,328,955	3,118,585	3,139,462	11,446,965	11,809,105	5,447,397	781,951	5,154,844	88,125,213
Operating income (loss)	5,734,797	599,791	95,628	343,263	600,364	482,881	1,035,085	(94,111)	(3,908,042)	4,889,656
Realized and unrealized gains (losses)										
on investments	(584,725)	270,873	(218,469)	78,654	727,744	-	183,270	-	-	457,347
Gain (loss) on early extinguishment of debt	(1,048,705)	(163,259)	-	(36,338)	(32,950)	3,491	(46,623)	-	-	(1,324,384)
Operating transfers, net	(3,136,627)	(63,696)	(125,000)	(62,179)	(93,139)	(685,894)	(202,209)	32,650	4,978,400	642,306
Net income (loss)	964,740	643,709	(247,841)	323,400	1,202,019	(199,522)	969,523	(61,461)	1,070,358	4,664,925
Fund equity (deficit), beginning of year	44,167,644	8,288,736	2,210,121	(511,307)	(902,798)	1,891,146	(61,916)	159,055	7,908,156	63,148,837
Fund equity (deficit), end of year	\$ 45,132,384	8,932,445	1,962,280	(187,907)	299,221	1,691,624	907,607	97,594	8,978,514	67,813,762

See accompanying independent auditors' report.

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

Miscellaneous Bond Information

August 31, 1998

(Amounts in Thousands)

Description of Issue	Original Principal Bonds Issued To Date	Range of		Scheduled Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1987 Single-Family Series B	\$ 77,700	5.00%	8.20%	1989	2016	03/01/98
1991 Single-Family Series A	81,605	4.80%	7.15%	1992	2012	09/01/01
1994 Jr Lien Mtg Rev Bonds Series A	5,000	8.10%	8.10%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	36,696	7.00%	7.00%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series B	55,995	9.50%	9.50%	2016	2016	09/01/04
1995 Single-Family Series A	85,760	4.15%	6.15%	1997	2007	09/01/05
1995 Single-Family Series B	9,605	4.95%	5.40%	2004	2008	09/01/05
1995 Single-Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/05
1996 Single-Family Series A	15,000	4.50%	6.30%	2001	2028	09/01/06
1996 Single-Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/06
1996 Single-Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/06
1996 Single-Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/06
1996 Single-Family Series E	98,730	3.90%	6.00%	1998	2017	09/01/06
1997 Single-Family Series A	44,465	5.25%	5.80%	1998	2029	09/01/07
1997 Single-Family Series B	9,510	5.45%	5.45%	1998	2019	09/01/07
1997 Single-Family Series C	25,525	6.80%	6.80%	1998	2029	09/01/07
1997 Single-Family Series D	44,795	5.65%	5.70%	1998	2029	09/01/07
1997 Single-Family Series E	20,295	4.50%	5.00%	1998	2016	09/01/07
1997 Single-Family Series F	20,000	6.77%	6.77%	1998	2029	09/01/07
1987 RMRB Series A	30,000	6.75%	9.13%	1990	2019	07/01/99
1987 RMRB Series D	47,000	7.50%	8.40%	1994	2021	07/01/99
1988 RMRB Series A	40,920	6.50%	7.60%	1990	2018	07/01/00
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/99
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/04
1989 GNMA Series A	72,000	(a)		2019	2019	06/01/99
1989 GNMA Series B	48,250	(b)		2021	2021	12/01/99
1990 Coll Home Mtg Rev Bds Series A	46,600	6.30%	7.35%	1993	2011	07/01/00
1990 Coll Home Mtg Rev Bds Series B	93,445	7.80%	7.80%	2023	2023	07/01/00
1991 Coll Home Mtg Rev Bds Series A	36,000	5.25%	6.95%	1994	2023	01/01/02
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.27%	2023	2024	05/04/95
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2024	05/04/95
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2023	2024	05/04/95
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/04
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/04
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/04
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/04
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/04
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/05
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/05
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/05
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/05
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/05
TOTAL SINGLE-FAMILY BONDS	1,603,226					
1984 MF Series A&B (Oxford)	34,400	(c)		2006	2006	03/01/98
1984 MF Private Placement(Summerbend)	10,100	(d)		1985	1999	09/01/86
1987 South Texas Rental Housing	1,400	9.50%	9.50%	1988	2012	02/01/88
1993 MF Series A&B (RemHill/HighPt Ref)	26,370	(Weekly rates)		2023	2023	02/01/00
1993 Res Ren Project Revenue Bonds	16,775	3.30%	5.80%	1994	2024	01/01/04
1996 MF Series A&B (Brighton's Mark)	9,748	6.13%	6.13%	2026	2026	01/01/03
1996 MF Series A&B (Las Colinas)	14,870	5.65%	5.65%	2026	2026	01/01/03
1996 MF Series A&B (Braxton's Mark)	14,274	5.81%	5.81%	2026	2026	01/01/03
1996 MF Series A-D (DFW Pool)	22,150	6.00%	10.00%	1997	2026	07/01/06
1996 MF Series A-D (Harbors & Plumtree)	13,050	5.90%	10.00%	1997	2026	07/01/06
1996 MF Series A&B (NHP Foundation)	27,560	5.50%	6.40%	1997	2027	07/01/07
1997 MF Series (Meadow Ridge)	13,575	5.05%	5.55%	2008	2030	02/01/01
1998 MF Series (Pebble Brook)	10,900	4.95%	5.60%	2008	2030	06/01/01
1998 MF Series A-C (Residence Oaks)	8,200	5.98%	7.18%	2030	2030	05/01/01
1998 MF Series (Volente)	10,850	5.00%	5.63%	2008	2031	07/01/01
TOTAL MULTIFAMILY BONDS	234,222					
TOTAL BONDS ISSUED	\$ 1,837,448					

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

Miscellaneous Bond Information

August 31, 1998

FOOTNOTES:

- (a) Interest payment is equal to the sum of all interest payments received with respect to the Mortgage Certificates, less the Agency Expense amount; and all earnings resulting from the investment of moneys on deposit in Funds established by the Indenture (not including the Cost of Issuance, Expense and Rebate Funds), less the Rebate Amount.
- (b) Interest payable on the bonds is an amount equal to the sum of all amounts transferred to the Interest Fund pursuant to the Trust Indenture which amount generally represents certain capitalized interest amounts, amounts representing interest on the GNMA Certificates, and certain investment earnings.
- (c) 105% of Floating Interest Index as computed by Kenny Information Systems. May never exceed the lower of the maximum rate of nonusurious interest on securities issued by the Agency as presently or hereafter allowed by law or 17.555% per annum. Optional redemption date - March 1 of the third year following the Conversion Date.
- (d) Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.

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

Changes in Bond Indebtedness
August 31, 1998
(Amounts in Thousands)

Description of Issue	Bonds		Bonds	Bonds	Bonds
	Outstanding 9/1/97	Bonds Issued	Matured or Retired	Refunded or Extinguished	Outstanding 8/31/98
1987 Single-family Series B	\$ 22,255,000	-	630,000	21,625,000	-
1991 Single-family Series A	39,185,000	-	2,045,000	2,075,000	35,065,000
1994 Jr Lien Mtg Rev Bonds Series A	5,000,000	-	-	-	5,000,000
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	19,691,050	1,351,200 (a)	-	2,859,574	18,182,676
1994 Jr Lien Mtg Rev Bonds Series B	39,125,000	-	-	16,260,000	22,865,000
1995 Single-family Series A	85,620,000	-	1,315,000	725,000	83,580,000
1995 Single-family Series B	9,420,000	-	-	470,000	8,950,000
1995 Single-family Series C	59,215,000	-	710,000	5,105,000	53,400,000
1996 Single-family Series A	12,330,000	-	590,000	1,515,000	10,225,000
1996 Single-family Series B	42,140,000	-	-	1,475,000	40,665,000
1996 Single-family Series C	2,000,000	-	-	-	2,000,000
1996 Single-family Series D	69,390,000	-	-	30,000	69,360,000
1996 Single-family Series E	95,405,000	-	2,150,000	5,035,000	88,220,000
1997 Single-family Series A	-	44,465,000	-	-	44,465,000
1997 Single-family Series B	-	9,510,000	-	-	9,510,000
1997 Single-family Series C	-	25,525,000	-	-	25,525,000
1997 Single-family Series D	-	44,795,000	-	-	44,795,000
1997 Single-family Series E	-	20,295,000	-	875,000	19,420,000
1997 Single-family Series F	-	20,000,000	-	-	20,000,000
1987 RMRB Series A	5,560,000	-	145,000	1,600,000	3,815,000
1987 RMRB Series D	25,830,000	-	-	2,410,000	23,420,000
1988 RMRB Series A	35,170,000	-	460,000	295,000	34,415,000
1989 RMRB Series A	15,730,000	-	180,000	4,085,000	11,465,000
1989 RMRB Series B	16,240,000	-	-	4,180,000	12,060,000
1989 GNMA Series A	18,092,913	-	2,948,938	-	15,143,975
1989 GNMA Series B	20,957,197	-	2,498,788	-	18,458,409
1990 Coll Home Mtg Rev Bds Series A	2,500,000	-	535,000	275,000	1,690,000
1990 Coll Home Mtg Rev Bds Series B	31,835,000	-	-	4,160,000	27,675,000
1991 Coll Home Mtg Rev Bds Series A	23,990,000	-	270,000	2,390,000	21,330,000
1992 Coll Home Mtg Rev Bds Series A	4,800,000	-	-	3,600,000	1,200,000
1992 Coll Home Mtg Rev Bds Series B	30,000,000	-	-	-	30,000,000
1992 Coll Home Mtg Rev Bds Series C	72,700,000	-	-	-	72,700,000
1993 SF MRB CHMRB Series A	10,430,000	-	-	1,060,000	9,370,000
1993 SF MRB CHMRB Series B	13,265,000	-	-	955,000	12,310,000
1993 SF MRB CHMRB Series C	13,780,000	-	-	890,000	12,890,000
1993 SF MRB CHMRB Series D	6,520,000	-	-	595,000	5,925,000
1993 SF MRB CHMRB Series E	5,520,000	-	-	525,000	4,995,000
1994 SF MRB CHMRB Series A	33,500,000	-	-	2,080,000	31,420,000
1994 SF MRB CHMRB Series B	32,590,000	-	-	2,335,000	30,255,000
1994 SF MRB CHMRB Series C	15,305,000	-	-	1,685,000	13,620,000
1995 SF MRRB CHMRB Series A	4,305,000	-	-	765,000	3,540,000
1995 SF MRRB CHMRB Series B	1,300,000	-	-	650,000	650,000
TOTAL SINGLE-FAMILY BONDS	940,696,160	165,941,200	14,477,726	92,584,574	999,575,060
1984 MF Series A&B (Oxford)	34,400,000	-	-	7,925,000	26,475,000
1984 MF Private Placement(Summerbend)	8,720,000	-	120,000	-	8,600,000
1987 South Texas Rental Housing	1,182,975	-	35,936	-	1,147,039
1993 MF Series A&B(RemHill/HighPt Ref)	26,370,000	-	-	13,880,000	12,490,000
1993 Res Ren Project Revenue Bonds	15,990,000	-	265,000	-	15,725,000
1996 MF Series A&B (Brighton's Mark)	9,905,527	268,959 (a)	-	97,422	10,077,064
1996 MF Series A&B (Las Colinas)	15,091,116	377,729 (a)	-	137,077	15,331,768
1996 MF Series A&B (Braxton's Mark)	14,492,854	373,889 (a)	-	135,604	14,731,139
1996 MF Series A-D (DFW Pool)	22,030,000	-	255,000	-	21,775,000
1996 MF Series A-D (Harbors & Plumtree)	12,975,000	-	150,000	-	12,825,000
1996 MF Series A&B (NHP Foundation)	27,405,000	-	320,000	-	27,085,000
1997 MF Series (Meadow Ridge)	-	13,575,000	-	-	13,575,000
1998 MF Series (Pebble Brook)	-	10,900,000	-	-	10,900,000
1998 MF Series A-C (Residence Oaks)	-	8,200,000	-	-	8,200,000
1998 MF Series (Volente)	-	10,850,000	-	-	10,850,000
TOTAL MULTIFAMILY BONDS	188,562,472	44,545,577	1,145,936	22,175,103	209,787,010
TOTAL BONDS ISSUED	\$ 1,129,258,632	210,486,777	15,623,662	114,759,677	1,209,362,070 (b)

FOOTNOTES:

(a) Bond Accretions

(b) Bonds Outstanding balance at 8/31/98 does not include unamortized premium or discounts.

Bonds Outstanding per schedule

\$ 1,209,362,070

Unamortized Premium:

Single-family

823,154

Single-family-Gain/(Loss) on Refunding

(8,022,520)

CHMRB

2,700,219

Multifamily

(121,813)

Bonds Outstanding per Balance Sheet

\$ 1,204,741,110

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

Debt Service Requirements

August 31, 1998

(Amounts in Thousands)

Description	1999	2000	2001	2002	2003	2004 & Beyond	Total Requirements
1991 Single-family Series A	\$ 4,479	4,480	4,471	3,190	1,919	37,115	55,654
1994 Jr Lien Mtg Rev Bond Series A	405	405	405	405	405	28,246	30,271
1994 Jr Lien Mtg Rev Bond Series B	2,172	2,172	2,172	2,172	2,172	51,304	61,964
1995 Single-family Series A	6,206	6,201	6,202	6,202	6,202	168,846	199,859
1995 Single-family Series B	466	466	466	466	466	10,588	12,918
1995 Single-family Series C	4,336	4,340	4,342	4,347	4,345	88,171	109,881
1996 Single-family Series A	644	644	644	644	644	26,652	29,872
1996 Single-family Series B	2,354	2,354	2,354	2,354	2,354	67,833	79,603
1996 Single-family Series C	166	166	166	166	166	4,200	5,030
1996 Single-family Series D	4,206	4,206	4,206	4,206	4,206	169,610	190,640
1996 Single-family Series E	7,542	7,556	7,543	7,554	7,519	113,516	151,230
1997 Single-family Series A	2,500	2,500	2,500	2,500	2,500	98,348	110,848
1997 Single-family Series B	518	518	518	518	518	17,804	20,394
1997 Single-family Series C	1,736	1,736	1,736	1,736	1,736	71,520	80,200
1997 Single-family Series D	2,542	2,542	2,542	2,542	2,542	111,529	124,239
1997 Single-family Series E	950	950	950	950	950	30,106	34,856
1997 Single-family Series F	1,354	1,354	1,354	1,354	1,354	55,881	62,651
TOTAL SINGLE-FAMILY BONDS	42,576	42,590	42,571	41,306	39,998	1,151,069	1,360,110
1987 Residential Mtg Revenue Bonds, Series A	613	590	581	266	266	4,737	7,053
1987 Residential Mtg Revenue Bonds, Series D	2,293	1,937	1,937	1,937	1,937	52,232	62,273
1988 Residential Mtg Revenue Bonds, Series A	3,083	3,077	3,107	3,122	3,123	58,384	73,896
1989 Residential Mtg Revenue Bonds, Series A	1,028	1,016	836	836	836	20,698	25,250
1989 Residential Mtg Revenue Bonds, Series B	947	947	947	947	947	26,259	30,994
TOTAL RESIDENTIAL MTG REVENUE BONDS	7,964	7,567	7,408	7,108	7,109	162,310	199,466
1989 GNMA, Series A	3,689	3,088	2,585	2,163	1,810	9,129	22,464
1989 GNMA, Series B	3,608	3,177	2,798	2,465	2,170	16,207	30,425
TOTAL GNMA	7,297	6,265	5,383	4,628	3,980	25,336	52,889
1990 Coll Home Mtg Rev Bonds, Series A	636	643	627	-	-	-	1,906
1990 Coll Home Mtg Rev Bonds, Series B	2,159	2,159	2,159	2,159	2,159	69,767	80,562
1991 Coll Home Mtg Rev Bonds, Series A	1,719	1,707	1,689	1,677	1,373	44,739	52,904
1992 Coll Home Mtg Rev Bonds, Series A	82	82	82	82	82	2,832	3,242
1992 Coll Home Mtg Rev Bonds, Series B	2,042	2,042	2,042	2,042	2,042	70,829	81,039
1992 Coll Home Mtg Rev Bonds, Series C	4,947	4,947	4,947	4,947	4,947	176,596	201,331
TOTAL COLL HOME MTG REV BONDS	11,585	11,580	11,546	10,907	10,603	364,763	420,984
1993 SINGLE-FAMILY CHMRB, SERIES A	548	548	548	548	548	21,978	24,718
1993 SINGLE-FAMILY CHMRB, SERIES B	815	815	815	815	815	31,053	35,128
1993 SINGLE-FAMILY CHMRB, SERIES C	861	861	861	861	861	32,694	36,999
1993 SINGLE-FAMILY CHMRB, SERIES D	401	401	401	401	401	15,135	17,140
1993 SINGLE-FAMILY CHMRB, SERIES E	342	342	342	342	342	12,865	14,575
TOTAL SINGLE-FAMILY CHMRB 1993	2,967	2,967	2,967	2,967	2,967	113,725	128,560
1994 SINGLE-FAMILY CHMRB, SERIES A	2,152	2,152	2,152	2,152	2,152	83,076	93,836
1994 SINGLE-FAMILY CHMRB, SERIES B	1,936	1,936	1,936	1,936	1,936	76,728	86,408
1994 SINGLE-FAMILY CHMRB, SERIES C	851	851	851	851	851	34,051	38,306
TOTAL SINGLE-FAMILY CHMRB 1994	4,939	4,939	4,939	4,939	4,939	193,855	218,550
1995 SINGLE-FAMILY CHMRB, SERIES A	222	222	222	222	222	6,419	7,529
1995 SINGLE-FAMILY CHMRB, SERIES B	37	37	37	37	37	947	1,132
TOTAL SINGLE-FAMILY CHMRB 1995	259	259	259	259	259	7,366	8,661
1984 MF Series A&B (Oxford)	2,102	2,102	2,102	2,102	2,102	41,178	51,688
1984 MF Private Placement (Summerbend)	894	883	930	797	735	22,337	26,576
1987 MF Series (South Texas Rental Housing)	147	146	147	146	147	1,370	2,103
1993 MF Series A&B (Reming. Hill/HP)	500	500	500	500	500	22,480	24,980
1993 MF Res Ren Proj Rev Bonds	1,171	1,168	1,174	1,178	1,176	26,875	32,742
1996 MF Series A&B (Brighton's Mark)	598	598	598	598	598	23,819	26,809
1996 MF Series A&B (Las Colinas)	840	840	840	840	840	34,656	38,856
1996 MF Series A&B (Braxton's Mark)	829	829	829	829	829	33,806	37,951
1996 MF Series A-D (Dallas-Ft. Worth Pool)	1,788	1,789	1,790	1,789	1,787	41,055	49,998
1996 MF Series A-D (Harbors & Plumtree)	1,051	1,054	1,046	1,048	1,051	24,177	29,427
1996 MF Series A&B (NHP Foundation)	2,050	2,069	2,071	2,068	2,063	48,582	58,903
1997 MF Series (Meadow Ridge Apartments)	746	746	899	901	907	27,622	31,821
1998 MF Series (Pebblebrook Apartments)	596	596	661	726	730	20,977	24,286
1998 MF Series A-C (Residence at the Oaks)	492	492	544	593	593	18,948	21,662
1998 MF Series (Volente Project)	600	600	665	725	729	20,998	24,317
TOTAL MULTIFAMILY BONDS	14,404	14,412	14,796	14,840	14,787	408,880	482,119
TOTAL ALL BONDS	\$ 91,991	90,579	89,869	86,954	84,642	2,427,304	2,871,339

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

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

Analysis of Funds Available for Debt Service - Revenue Bonds

August 31, 1998
(Amounts in the Thousands)

Description of Issue	Pledge and Other Sources Related Expenditures for FY 1998						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	
Single Family:							
Series 82A, 83A, 84 A&B, 85A, 85B/C 86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C 96A-C, 96D/E	21,062	23,360	58,050	102,472	1,211	1,686	101,997
Residential Mortgage Revenue Bonds:							
Series 87A, 87D, 88A, 89 A/B	867	7,000	12,570	20,437	62	143	20,356
GNMA, Series 1989A & 1989B	50	3,059	-	3,109	105	58	3,156
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	169	11,878	10,425	22,472	-	169	22,303
SF MRB CHMRB Series 1993 A-E	-	3,483	4,025	7,508	-	35	7,473
SF MRB CHMRB Series 1994 A-C	-	5,994	6,100	12,094	23	32	12,085
SF MRB CHMRB Series 1995 A&B	-	465	1,415	1,880	-	7	1,873
TOTAL SINGLE FAMILY	22,148	55,239	92,585	169,972	1,401	2,130	169,243
Multi Family:							
1982 MF Series A (BMIR)	-	1	-	1	-	-	1
1984 MF Series A&B (Oxford)	1,488	6	7,925	9,419	113	159	9,373
1984 MF Private Placement (Summerbend)	788	3	-	791	66	1	856
1985 MF Series A (Folsom IV)	-	-	-	-	-	(7)	7
1985 MF Series G (Wildwood)	-	-	-	-	2	(12)	14
1987 South Texas Rental Housing	111	70	-	181	-	1	180
1991 MF Series A&B (Phoenix Mutual)	-	1	-	1	-	-	1
1993 MF Series I (Colorado Club)	-	1	-	1	-	-	1
1993 MF Series A&B (RemHill/HighPt Ref)	825	3	13,880	14,708	76	10	14,774
1993 Res Ren Project Revenue Bonds	896	-	-	896	55	-	951
1996 MF Series A/B Brighton's/Las Colinas	1,498	-	234	1,732	(11)	83	1,638
1996 MF Series A/B (Braxton's Mark)	865	-	136	1,001	(6)	3	992
1996 MF Series A-D (Dallas-Ft Worth Pool)	1,534	-	-	1,534	57	(18)	1,609
1996 MF Series A-D (Harbors & Plumtree)	900	-	-	900	55	-	955
1996 MF Series A/B (NHP Foundation)	1,706	-	-	1,706	116	-	1,822
1997 MF Series (Meadow Ridge)	524	-	-	524	-	-	524
1998 MF Series (Pebble Brook)	200	-	-	200	-	-	200
1998 MF Series A-C (Residence Oaks)	164	-	-	164	7	-	171
1998 MF Series (Volente)	178	-	-	178	-	-	178
TOTAL MULTIFAMILY	11,677	85	22,175	33,937	530	220	34,247
TOTAL	33,825	55,324	114,760	203,909	1,931	2,350	203,490

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

Analysis of Funds Available for Debt Service - Revenue Bonds

August 31, 1998
(Amounts in the Thousands)

Description of Issue	Debt Service		Interest & Sinking Fund			Reserve Fund	
	Principal	Interest	Refunded or Extinguished	Minimum	Actual	Minimum	Actual
Single Family:							
Series 82A, 83A, 84A&B, 85A, 85B/C 86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C 96A-C, 96D/E	\$ 7,440	38,212	58,050	-	-	6,841	22,848
Residential Mortgage Revenue Bonds:							
Series 87A, 87D, 88A, 89A/B GNMA, Series 1989A & 1989B	785	7,186	12,570	-	-	4,684	4,878
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C SF MRB CHMRB Series 1993 A-E SF MRB CHMRB Series 1994 A-C SF MRB CHMRB Series 1995 A&B	805	11,278	10,425	-	-	-	-
	-	3,104	4,025	-	-	-	-
	-	5,115	6,100	-	-	-	-
	-	294	1,415	-	-	-	-
TOTAL SINGLE FAMILY	14,478	68,250	92,585	-	-	11,525	27,726
Multi Family:							
1982 MF Series A (BMIR)	-	-	-	-	-	-	-
1984 MF Series A&B (Oxford)	-	1,416	7,925	-	-	-	-
1984 MF Private Placement (Summerbend)	120	787	-	-	-	-	-
1985 MF Series A (Folsom IV)	-	-	-	-	-	-	-
1985 MF Series G (Wildwood)	-	-	-	-	-	-	-
1987 South Texas Rental Housing	36	111	-	-	-	1,147	1,253
1991 MF Series A&B (Phoenix Mutual)	-	-	-	-	-	-	-
1993 MF Series I (Colorado Club)	-	-	-	-	-	-	-
1993 MF Series A&B (RemHill/HighPt Ref)	-	816	13,880	-	-	-	-
1993 Res Ren Project Revenue Bonds	265	896	-	-	-	-	-
1996 MF Series A/B Brighton's/Las Colinas)	-	1,492	234	-	-	-	-
1996 MF Series A/B (Braxton's Mark)	-	861	136	-	-	-	-
1996 MF Series A-D (Dallas-Ft Worth Pool)	255	1,533	-	-	-	-	-
1996 MF Series A-D (Harbors & Plumtree)	150	900	-	-	-	-	-
1996 MF Series A/B (NHP Foundation)	320	1,712	-	-	-	-	-
1997 MF Series (Meadow Ridge)	-	524	-	-	-	-	-
1998 MF Series (Pebble Brook)	-	200	-	-	-	-	-
1998 MF Series A-C (Residence Oaks)	-	164	-	-	-	-	-
1998 MF Series (Volente)	-	178	-	-	-	-	-
TOTAL Multifamily	1,146	11,590	22,175	-	-	1,147	1,253
TOTAL	\$ 15,624	79,840	114,760	-	-	12,672	28,979

APPENDIX D-2

UNAUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND
FOR ELEVEN-MONTH PERIOD ENDED
JULY 31, 1999

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at July 31, 1999
(Unaudited)**

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	GNMA Mortgage Revenue 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	
ASSETS										
Cash	\$ 54,516	\$ 606	\$ 88	\$	\$ 565,895	\$	\$	\$	\$ 1,268,150	\$
Cash Equivalents	14,832,377	789,627	781,268	1,053,874	17,127,439	1,628,235	787,862	9,739,836	8,531,834	
Investments, fair value	136,918,581	94,846,151		5,798,910	23,811,473		470,928			
Mortgage-backed securities, fair value	285,566,903	97,191,981	28,772,633	129,898,455		39,420,958	72,162,708			
Loans Receivable, net	158,894,279	5,610,759			213,212,893				131,609	
Real Estate Owned, net	598,458	(482)								
Loans Receivable									1,000,000	
Accrued Interest Receivable	5,991,293	1,034,198	191,047	787,400	593,412	223,870	413,716	38,083	2,413	
Deferred Issuance Costs, net	6,439,225	2,298,444	190,480	1,454,773	784,237	358,751	418,520			
Other Assets	362,169	0			4,500				682,298	
TOTAL ASSETS	\$ 589,657,801	\$ 201,771,284	\$ 29,935,518	\$ 138,989,212	\$ 255,899,649	\$ 41,631,612	\$ 74,253,754	\$ 9,777,919	\$ 11,616,104	\$ 1,000,000
LIABILITIES AND FUND BALANCES										
Accounts Payable	\$ 532,890,134	\$ 191,414,980	\$ 27,814,869	\$ 132,713,556	\$ 214,215,935	\$ 40,550,000	\$ 72,405,000	\$	\$	\$ 1,000,000
Commercial Paper Notes Payable								9,665,000		
Accrued Interest Payable	13,829,492	911,064	194,532	774,568	1,671,637	220,395	394,750	25,946		
Accounts Payable and Other										
Accrued Expenses	49,477	8,550	1,177		751				529,741	
Other Liabilities	5,303,025	1,533,866	239,596	2,601,177	38,654,637	13,215	151,965	74,836	206,134	
TOTAL LIABILITIES	552,072,128	193,868,480	28,250,174	138,089,301	254,542,960	40,783,610	72,951,715	9,765,782	735,875	1,000,000
Restricted Fund Balance	37,585,673	7,902,824	1,685,342	2,899,911	1,356,689	648,002	1,302,039	12,137	10,880,229	
TOTAL LIABILITIES AND FUND BALANCES	\$ 589,657,801	\$ 201,771,284	\$ 29,935,518	\$ 138,989,212	\$ 255,899,649	\$ 41,631,612	\$ 74,253,754	\$ 9,777,919	\$ 11,616,104	\$ 1,000,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES AND EXPENSES
For the Eleventh Period Ending July 31, 1999
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	GNMA Mortgage Revenue 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	
Interest Revenue:										
Loans	\$ 15,086,870	\$ 598,789	\$	\$	\$ 11,771,652	\$	\$	\$	\$ 10,921	\$
Investments	23,968,961	9,799,647	2,341,399	9,873,854	58,032	2,701,438	4,832,570	264,021	385,381	
Real Estate Owned	123,524	2,332								
Total Interest Revenue	39,179,355	10,400,768	2,341,399	9,873,854	11,829,684	2,701,438	4,832,570	264,021	396,302	
Interest Expense:										
Interest on Bonds	32,391,865	9,731,697	2,340,685	9,346,922	11,771,653	2,561,297	4,533,220			
Interest on Commercial Paper								249,091		
Net Interest Revenue	6,787,490	669,071	714	526,932	58,031	140,141	299,350	14,930	396,302	
Other Revenue:										
Commitment Fees	558,211	93,369	43,614	170,981	18,934					
Other	404,384	(1,610)	81,612		504,170				2,798,951	
Total Other Revenue	962,595	91,759	125,226	170,981	521,104	0	0	0	2,798,951	
Other Expenses:										
Amortization and Write-Off of Deferred Issuance Costs	195,530	65,657	34,491	27,888	15,080	5,207	6,031	99,811		
Mortgage Loan Servicing Fees	551,974	29,245								
Trustee Fees	339,532	30,568	12,021	31,750	429	11,932	32,157	2,490	1,164	
Mortgage Pool & Self Insurance	278,921									
Provision for Estimated Losses on Loans	225,600	2,790								
Other	218,250	1,602	1,934	92,041	376,516	5,000	3,000	11,670	23,337	
General and Administrative				400					4,668,022	
Total Other Expenses	1,809,807	130,062	48,446	152,077	392,025	22,139	41,188	113,971	4,692,523	
Operating Income (Loss)	5,940,258	630,768	77,494	545,836	187,110	118,002	258,162	(99,041)	(1,497,270)	
Gain (Loss) on Early Extinguishment of Debt	(1,517,841)	(103,779)		140,851	25,527	(44,029)	(43,167)			
Realized & Unrealized Gains (Losses) on Investments	(9,263,725)	(1,499,097)	(259,862)	1,975,383		1,017,626	403,920			
Operating Transfers, net	(2,705,401)	(57,514)	(94,569)	(61,379)	(547,572)	(55,691)	(224,484)	13,584	3,398,985	
Net Income (Loss)	\$ (7,546,708)	\$ (1,029,622)	\$ (276,937)	\$ 2,600,691	\$ (334,935)	\$ 1,035,908	\$ 394,431	\$ (85,457)	\$ 1,901,715	\$
Restricted fund balance, beginning of period	45,132,382	8,932,446	1,962,279	299,220	1,691,624	(187,908)	907,608	97,594	8,978,514	
Equity Transfers										
RESTRICTED FUND BALANCE, END OF PERIOD	\$ 37,585,673	\$ 7,902,824	\$ 1,685,342	\$ 2,899,911	\$ 1,356,689	\$ 848,002	\$ 1,302,039	\$ 12,137	\$ 10,880,229	\$

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APPENDIX E

**FORM OF PROPOSED OPINION OF BOND COUNSEL
FOR SERIES 1999 BONDS**



ATTORNEYS AT LAW

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December __, 1999

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 Residential Mortgage Revenue Bonds, in three series to be known as (i) its Residential Mortgage Revenue Bonds, Series 1999B (the "Series 1999B Bonds"), (ii) its Residential Mortgage Revenue Refunding Bonds, Series 1999C (the "Series 1999C Bonds"), and (iii) its Residential Mortgage Revenue Refunding Bonds, Series 1999D (the "Series 1999D Bonds") (collectively, the "Series 1999 Bonds"). The initially issued Fixed Rate Series 1999B Bonds, the Series 1999C Bonds and the Series 1999D Bonds shall bear interest from the date thereof, and the Interim Rate Series 1999B Bonds shall bear interest (i) from the date thereof until its Remarketing Date or prior redemption at the Interim Rate, and (ii) from and after its Remarketing Date until maturity or prior redemption at the Remarketing Rate. Interest on the Series 1999 Bonds is payable July 1, 2000, and semiannually thereafter on each January 1 and July 1 until maturity or prior redemption. The Series 1999 Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 1999 Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to mandatory, optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE SERIES 1999 BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on October 8, 1999 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1987, between the Department and Bank One, Texas, N.A., as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "RMRB Indenture"), a Twelfth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1999 (the "Twelfth Series Supplement") relating to the Series 1999B Bonds, a Thirteenth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1999 (the "Thirteenth Series Supplement") relating to the Series 1999C Bonds, and a Fourteenth Supplemental Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1999 (the "Fourteenth Series Supplement") relating to the Series 1999D Bonds (the Twelfth Series Supplement, the Thirteenth Series Supplement and the Fourteenth Series Supplement shall be referred to collectively as the "Supplemental Indentures"). The RMRB Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series 1999B Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans. The Series 1999C Bonds are being issued for the purpose of refunding the Department's outstanding Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT). The Series 1999D Bonds are being issued for the purpose of refunding all of the outstanding Texas Housing Agency's GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A and GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989B. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 1999 Bonds upon the terms and conditions set forth in the Indenture. The Department reserves the right in the Indenture to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 1999 Bonds, all as provided in the Indenture.

THE SCOPE OF OUR ENGAGEMENT AS BOND COUNSEL extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Series 1999 Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 1999 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 1999 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 1999 Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. TR-1 of each series of the Series 1999 Bonds.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Series 1999 Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Series 1999 Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Texas Housing Agency's Residential Mortgage Revenue Bonds, Series 1988A; Residential Mortgage Revenue Bonds Series 1989A; Residential Mortgage Revenue Bonds, Series 1989B; the Department's Residential Mortgage Revenue Bonds, Series 1998A; Residential Mortgage Revenue Refunding Bonds, Series 1998B; and Residential Mortgage Revenue Refunding Bonds, Series 1999A, all issued under the RMRB Indenture.

3. The Department has duly authorized the issuance, execution and delivery of the Series 1999 Bonds. The authorized officers of the Department have duly executed the Series 1999 Bonds and the Trustee has duly authenticated the Series 1999 Bonds, to the extent required by the Indenture, and delivered the Series 1999 Bonds to the initial purchasers thereof. The Series 1999 Bonds constitute legal, valid and binding limited obligations of the Department and are entitled to the benefit and security of the Indenture. The form and execution of the executed Series 1999 Bonds that we have examined are regular and proper.

4. The Series 1999 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 1999 Bonds are not and do not create or constitute in any way an obligation, a debt or a liability of the State, or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State. The Department has no taxing power.

5. The enforceability of certain provisions of the Series 1999 Bonds, the Bond Resolution and the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors. Furthermore, the availability of equitable remedies under the Series 1999 Bonds, the Bond Resolution and the Indenture may be limited by general principles of equity that permit the exercise of judicial discretion.

6. Interest on the Series 1999 Bonds is excludable from gross income for federal income tax purposes under existing law. We observe that the conversion of the interest rate on the amount of Series 1999B Bonds to be converted from Interim Rate Series 1999B Bonds to Fixed Rate Series 1999B Bonds is conditional upon an opinion of Bond Counsel to the effect that such conversion and the establishment of the interest rate on the related 1999 Mortgage Loans pursuant to the provisions of the Indenture will not cause interest on such Series 1999B Bonds to be included in gross income of the Holders for federal income tax purposes under existing law, subject to the same assumptions set forth in this letter. We express no opinion with respect to our ability to render such opinion.

7. Interest on the Series 1999 Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of calculating the federal alternative minimum tax on individuals and corporations under existing law.

IN PROVIDING THE OPINIONS set forth in paragraphs 6 and 7 above with respect to the Series 1999 Bonds, we have relied on representations of the Department, the Underwriters, the Mortgage Lenders, the Servicer, and Causey Demgen & Moore, Inc., with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer, the Mortgage Lenders, and Causey Demgen & Moore, Inc. 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. In the event that such representations are 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 1999 Bonds could become includable in gross income for federal income tax purposes under existing law from the date of original delivery of the Bonds, 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 1999 Bonds.

HOLDERS OF THE BONDS should also be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits" tax on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 1999 Bonds.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement

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these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

Very truly yours,

APPENDIX F-1

**ADDITIONAL INFORMATION CONCERNING
MORTGAGE LOANS AND MORTGAGE CERTIFICATES**

**UPDATED INFORMATION RELATING TO THIS APPENDIX
WILL BE FILED WITH THE NRMSIRS AND THE SID
ON OR BEFORE THE LAST DAY OF FEBRUARY OF
EACH YEAR, BEGINNING FEBRUARY 1, 2000.**

**CERTAIN INFORMATION CONTAINED IN THIS APPENDIX
IS INCLUDED IN INFORMATION WHICH IS ACCESSIBLE
AT THE DEPARTMENT'S WEBSITE AT:
www.tdhca.state.tx.us**

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 Residential Mortgage Revenue Bonds, GNMA Collateralized Home Mortgage Revenue Bonds, Single Family Mortgage Revenue Bonds, Single Family Collateralized Home Mortgage Revenue Bond and Collateralized Home Mortgage Revenue Bonds. The following tables summarize certain information regarding the Portfolio Mortgage Loans and Mortgage Certificates, as of July 31, 1999, 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: Residential Mortgage Revenue Bond Trust Indenture

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1987 Series A ⁽¹⁾	\$ 30,000,000	\$ -	9.55%	\$ 25,038,498	\$ 6,106,736
1987 Series D ⁽¹⁾	47,000,000	-	8.00/9.25%	43,481,976	17,429,093
1988 Series A	40,920,000	33,540,000	6.50/6.69/7.69% 8.69/9.25%	39,432,829	17,627,334
1989 Series A/B	89,000,000	17,005,000	7.69/8.69%	77,819,827	31,524,376
1998 Series A/B ⁽²⁾	116,355,000	116,355,000	5.85%	29,371,245	29,324,107
1999 Series A	25,615,000	25,615,000	--	--	--
TOTAL	\$ 348,890,000	\$ 192,515,000		\$ 215,144,375	\$ 102,011,646

- (1) The Residential Mortgage Revenue Bonds 1987 Series A and 1987 Series D Bonds were refunded by the Residential Mortgage Revenue Bonds 1999 Series A Bonds.
- (2) The Residential Mortgage Revenue Bond Series 1998 Series A and 1998 Series B Bonds provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Residential Mortgage Revenue Bond Series 1998 Series B refunded certain notes totaling \$14,300,000 which previously refunded certain Bonds outstanding.

The following table characterizes the type of Portfolio Mortgage Loans and Mortgage Certificates of the Trust Indenture:

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Mortgage Loans
FHA Mortgage Loans	147	\$ 6,106,736	6.23%
GNMA Mortgage Certificates	2,214	94,433,518	93.77%
Total	2,361	\$ 100,540,254	100.00%

Based on reports submitted by the Servicers, the table below sets forth information concerning delinquent Portfolio Mortgage Loans and Mortgage Loans included in Mortgage Certificates of the Trust Indenture:

Mortgage Certificate Loans

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Percent of Total No. of Loans</u>
30 days	130	5.87%
60 days	26	1.17%
<u>90 days +</u>	<u>20</u>	<u>0.90%</u>
Total	176	7.94%

Mortgage Loans

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	14	\$ 628,340	9.52%
60 days	4	169,222	2.72%
<u>90 days +</u>	<u>0</u>	<u>-</u>	<u>0.00%</u>
Total	18	\$ 797,562	12.24%

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

Mortgage Certificate Loans

<u>Servicers</u>	<u>Percent of Total Loans</u>
Mitchell Mortgage Company	82.11%
Texas Star Mortgage	17.89%
Total	100.00%

Mortgage Loans

<u>Servicers</u>	<u>Percent of Total Loans</u>
Temple-Inland Mortgage Corp.	42.86%
Meritech Mortgage Services, Inc.	29.93%
Texas Star Mortgage	10.88%
FT Mortgage Company	5.44%
First Nationwide Mortgage	3.40%
Other	7.49%
Total	100.00%

The tables below set forth Reserve Fund Balances established by the Indenture of 1.5% of Bonds Outstanding for the Mortgage Reserve Fund and 4.0% of Bonds Outstanding for Debt Service Reserve Fund:

Reserve Fund Balance

Bond Series	Mortgage Reserve		Debt Service Reserve	
	Par Value	Average	Par Value	Average
	Fund Balances	Investment	Fund Balances	Investment
	Actual	Rate	Actual	Rate
1988A (3)	262,559	6.190	700,158	8.190
1989 A&B (3)	469,556	8.190	1,252,148	8.190
Total	\$ 732,115		\$ 1,952,306	

(3) These GNMA Certificates are included in the amount of Mortgage Certificates outstanding above.

The tables below set forth Self Insurance Fund Balances established by the Indenture:

Self Insurance Fund Balance

Bond Series	Actual Dollar Funded	Required per Rating Agency
1987A	\$ 450,992	\$ 450,992

Part II: GNMA Collateralized Home Mortgage Revenue Bonds

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Certificates	
				Originated	Outstanding
1989 Series A	\$ 72,000,000	\$ 12,109,969	9.25%	\$ 47,124,814	\$11,876,284
1989 Series B	48,250,000	15,704,900	7.68/8.68%	37,072,924	15,474,986
TOTAL	\$ 120,250,000	\$ 27,814,869		\$ 84,197,738	\$27,351,270

Based on reports submitted by the Servicers, the table below sets forth information concerning delinquent Mortgage Certificates Loans of the Trust Indenture:

Delinquent Mortgage Certificate Loans

Duration of Delinquency	Number of Delinquent Loans	Percent of Total No. of Loans
30 days	42	6.62%
60 days	15	2.37%
90 days +	9	1.42%
Total	66	10.41%

The tables below set forth the Servicers of the Mortgage Certificates:

Servicers—Mortgage Certificate Loans

<u>Servicers</u>	<u>Percent of Total Loans</u>
Mitchell Mortgage Company	43.38%
First Nationwide Mortgage	<u>56.62%</u>
Total	100.00%

Part III: Other Information

Mortgage Loan Information Management System

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

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

APPENDIX F-2

OTHER INDEBTEDNESS OF THE DEPARTMENT

**UPDATED INFORMATION RELATING TO THIS APPENDIX
WILL BE FILED WITH THE NRMSIRS AND THE SID
ON OR BEFORE THE LAST DAY OF FEBRUARY OF
EACH YEAR, BEGINNING FEBRUARY 1, 2000.**

**CERTAIN INFORMATION CONTAINED IN THIS APPENDIX
IS INCLUDED IN INFORMATION WHICH IS ACCESSIBLE
AT THE DEPARTMENT'S WEBSITE AT:
www.tdhca.state.tx.us**

Other Indebtedness of The Department

General. Between 1979, the year of its creation, and the end of August 1991, when it was succeeded by the Texas Department of Housing and Community Affairs (the "Department"), the Texas Housing Agency (the "Agency") issued seven series (four of which have been refunded or defeased) of its Residential Mortgage Revenue Bonds, two series of its Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds, twelve series (all of which have been refunded or defeased) of its Single Family Mortgage Revenue Bonds, one series of its Single Family Mortgage Revenue Refunding Bonds, and two series of its Collateralized Home Mortgage Revenue Bonds, all of which were issued to finance or refinance single family mortgage loans. In addition, the Agency issued two series of interim construction multi-family financing notes, twenty-seven series (twenty-five of which have been refunded or defeased) of its Multi-Family Housing Revenue Bonds, four series (all of which have been refunded a second time) of its Multi-Family Housing Revenue Refunding Bonds, and one series of its taxable Collateralized Mortgage Obligations, all of which outstanding obligations have, pursuant to the Act, been assumed by the Department. The Department has, since its creation in September 1991 and through July 31, 1999, issued one series of its Residential Mortgage Revenue Bonds, two series of its Residential Mortgage Revenue Refunding Bonds, eight series of its Single Family Mortgage Revenue Bonds, six series of its Single Family Mortgage Revenue Refunding Bonds, two series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, eight series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond), two series of Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond), nine series (four of which have been refunded or defeased) of its Collateralized Home Mortgage Revenue Bonds, all of which were issued to finance or refinance single-family mortgage loans. In addition, twenty-two series (two of which have been refunded or defeased) of its Multi-Family Mortgage Revenue Bonds and fourteen series (seven of which have been refunded or defeased) of its Multi-Family Housing Revenue Refunding Bonds were issued. The indebtedness evidenced by such bonds which remain outstanding is payable solely from the sources and assets, if any, securing such indebtedness and is not payable from any other funds of the Department. The security for the Bonds issued under the Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987, is separate and distinct from the security for the other indebtedness of the Department. As of July 31, 1999, the aggregate outstanding principal amount of bond indebtedness of the Department was \$1,217,181,304.

The Residential Mortgage Revenue and Refunding Bonds. The Department has issued ten series of Residential Mortgage Revenue and Refunding Bonds (the "RMRBs") pursuant to the Residential Mortgage Revenue Bond Trust Indenture and eleven separate Series Supplements (collectively the "RMRB Indenture"), and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of July 31, 1999, six series were outstanding with an aggregate outstanding principal amount of \$192,515,000 of Residential Mortgage Revenue and Refunding Bonds. For information concerning the portfolio of mortgage loans acquired with the Residential Mortgage Revenue Bonds, see "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

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. As of July 31, 1999, two series were outstanding with an aggregate outstanding principal amount of \$27,814,869 of GNMA Collateralized Bonds. For information concerning the portfolio of mortgage loans acquired with the GNMA Collateralized Home Mortgage Revenue Bonds, see "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue and Refunding Bonds. The Department has issued twenty-seven series of Single Family Mortgage Revenue and Refunding Bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, and thirty-one indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of July 31, 1999, fifteen series were outstanding with an aggregate outstanding principal amount totaling \$513,370,000 of the Single Family Mortgage Revenue and Refunding Bonds.

Junior Lien Single Family Mortgage Revenue Refunding Bonds. The Department has issued two series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, by and between the Department and Bank One, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the Single Family Indenture. As of July 31, 1999, two series were outstanding with an aggregate outstanding principal of \$25,757,301 of the Junior Lien Single Family Mortgage Revenue Refunding Bonds.

Collateralized Home Mortgage Revenue Bonds. 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 July 31, 1999, seven series were outstanding with an aggregate outstanding principal amount of \$130,435,000 of Collateralized Home Mortgage Revenue Bonds.

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued five series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1993 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1993, amended as of February 1, 1995 by and between the Department and Bank One, Texas, NA. As of July 31, 1999, five series were outstanding with an aggregate outstanding principal amount of \$40,550,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued three series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1994 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture dated as of November 1, 1994, supplemented by a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1994, as amended as of February 1, 1995, by and between the Department and Bank One, Texas, N.A. As of July 31, 1999, three series were outstanding with an aggregate outstanding principal amount of \$69,510,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued two series of its Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1995A and Series 1995B for the

purpose of refunding certain notes which previously refunded certain Bonds outstanding, under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture and a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture and Second Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, each dated as of November 1, 1994, each amended as of February 1, 1995, and each by and between the Department and Bank One, Texas, NA, as Trustee. As of July 31, 1999, two series were outstanding with an aggregate outstanding principal amount of \$2,895,000 of the Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program).

Multi-Family Housing Revenue and Refunding Bonds. The Agency and the Department have issued sixty-seven Multi-Family Housing Revenue and Refunding Bonds pursuant to separate trust indentures and which are secured by individual trust estates separate and distinct from each other. As of July 31, 1999, twenty-nine series were outstanding with an aggregate outstanding principal amount of \$214,334,134 of Multi-Family Housing Revenue and Refunding 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

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

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

Area	50% of AMFI	60% of AMFI (^)	80% of AMFI (^)	100% of AMFI*	115% of AMFI**	120% of AMFI***	140% of AMFI****
Austin-San Marcos Metro (1)	\$27,700	\$33,240	\$44,320	\$55,400	\$63,710	\$66,480	\$77,560
Brazoria Metro (2)	\$27,200	\$32,640	\$43,520	\$54,400	\$62,560	\$65,280	\$76,160
Dallas Metro (3)	\$29,100	\$34,920	\$46,560	\$58,200	\$66,930	\$69,840	\$81,480
Fort Worth - Arlington Metro (4)	\$27,650	\$33,180	\$44,240	\$55,300	\$63,595	\$66,360	\$77,420
Galveston - Texas City Metro (5)	\$26,050	\$31,260	\$41,680	\$52,100	\$59,915	\$62,520	\$72,940
Houston Metro (6)	\$27,050	\$32,460	\$43,280	\$54,100	\$62,215	\$64,920	\$75,740
Balance of State	\$22,900	\$27,480	\$36,640	\$45,800	\$52,670	\$54,960	\$64,120

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

(^) 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).

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

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

Updated: February 1, 1999

AVERAGE AREA PURCHASE PRICES

MAXIMUM ACQUISITION COST IN NON-TARGETED AREAS

(90% of Average Area Purchase Price)

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

MAXIMUM ACQUISITION COST IN TARGETED AREAS

(110% of Average Area Purchase Price)

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

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

APPENDIX H

<u>Date</u>	<u>Cumulative Prepayment Amount</u>
January 1, 2000	\$ 0
July 1, 2000	2,500,000
January 1, 2001	5,300,000
July 1, 2001	8,655,000
January 1, 2002	12,950,000
July 1, 2002	18,325,000
January 1, 2003	24,400,000
July 1, 2003	31,015,000
January 1, 2004	37,885,000
July 1, 2004	44,890,000
January 1, 2005	51,595,000
July 1, 2005	57,845,000
January 1, 2006	63,680,000
July 1, 2006	69,130,000
January 1, 2007	74,245,000
July 1, 2007	78,620,000
January 1, 2008	80,880,000
July 1, 2008	81,410,000
January 1, 2009	81,760,000
July 1, 2009	82,070,000
January 1, 2010	82,340,000
July 1, 2010	82,580,000
January 1, 2011	82,790,000
July 1, 2011	82,970,000
January 1, 2012	83,130,000
July 1, 2012	83,270,000
January 1, 2013	83,385,000
July 1, 2013	83,490,000
January 1, 2014	83,575,000
July 1, 2014	83,650,000
January 1, 2015	83,715,000
July 1, 2015	83,765,000
January 1, 2016	83,810,000
July 1, 2016	83,845,000
January 1, 2017	83,870,000
July 1, 2017	83,895,000
January 1, 2018	83,910,000
July 1, 2018	83,925,000
January 1, 2019	83,930,000
July 1, 2019	83,935,000
January 1, 2020 and thereafter	83,940,000

In the event of a redemption of bonds in accordance with the redemption described above under "*Special Redemption from Unexpended Proceeds*" and unless otherwise instructed pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, each Cumulative Prepayment Amount set forth in the table above shall be reduced by multiplying the Cumulative Prepayment Amount by a factor, the numerator of which is the sum of \$26,383,303 plus the dollar amount of Mortgage Certificates purchased and the denominator of which is \$90,793,303.