

OFFICIAL STATEMENT

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

Interest on the Series 2004A Bonds is includable in gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein.

NEW ISSUE - BOOK-ENTRY ONLY

\$4,140,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
TAXABLE JUNIOR LIEN SINGLE FAMILY VARIABLE RATE
MORTGAGE REVENUE BONDS
SERIES 2004A

Interest Accrues: Date of Delivery

Due: September 1, 2036

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

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



While the Series 2004A Bonds bear interest at a Weekly Interest Rate (as defined herein), interest on the Series 2004A Bonds will be payable to DTC commencing on September 1, 2004, and semi-annually thereafter on each March 1 and September 1 until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

The Series 2004A Bonds will initially bear interest at the Weekly Interest Rate from their date of original issuance and initial delivery unless and until converted to a different Interest Rate Period at the direction of the Department and upon satisfaction of certain conditions described herein. The interest rate on the Series 2004A Bonds may be changed from time to time by the Department to a Daily Interest Rate, Weekly Interest Rate, Short-Term Interest Rate, Alternate Interest Rate or to a Long-Term Interest Rate, to be determined by the Remarketing Agent (initially, UBS Financial Services Inc.) in the manner described herein. Interest will be payable on the Series 2004A Bonds at the times and in the manner described herein.

THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE SERIES 2004A BONDS ONLY WHILE THE SERIES 2004A BONDS BEAR INTEREST AT A WEEKLY RATE.

The registered owners of the Series 2004A Bonds will have the right, and in certain circumstances may be required, to tender their Series 2004A Bonds for purchase in the manner described herein, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of purchase. The Bondholders will have no right to elect to retain their Series 2004A Bonds following any mandatory purchase. The purchase price of any Series 2004A Bonds tendered or deemed tendered for purchase and not remarketed by the purchase date will (subject to certain conditions described herein) be payable from (i) amounts made available under a Standby Bond Purchase Agreement between the Department, the Tender Agent and DEPFA BANK plc, acting by and through its New York Agency (the "Liquidity Facility") and (ii) amounts made available by the Department.

THE SERIES 2004A BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY TENDER, SPECIAL REDEMPTION, MANDATORY SINKING FUND REDEMPTION, AND OPTIONAL REDEMPTION ON THE DATES AND AT THE REDEMPTION PRICES, INCLUDING REDEMPTION AT PAR UNDER CERTAIN CIRCUMSTANCES, WHICH ARE MORE FULLY DESCRIBED HEREIN. See "THE SERIES 2004A BONDS -- Redemption Provisions."

The Series 2004A Bonds are being issued for the primary purpose of providing down payment assistance to Eligible Borrowers (as defined herein). The Series 2004A Bonds, the Prior Obligations (as defined herein), and, unless subordinated, all bonds subsequently issued under the Junior Lien Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Junior Lien Trust Indenture. See "SECURITY FOR THE SERIES 2004A BONDS" and "THE JUNIOR LIEN TRUST INDENTURE." The Obligations (as defined herein), including the Series 2004A Bonds, are subordinate to Senior Lien Bonds (as defined herein).

THE SERIES 2004A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE OF TEXAS (THE "STATE") NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, FREDDIE MAC, AND FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2004A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GINNIE MAE, FREDDIE MAC, AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES, FREDDIE MAC CERTIFICATES, AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 2004A BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

The Series 2004A Bonds are offered when, as, and if issued by the Department. Delivery of the Series 2004A Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its General Counsel, Chris G. Wittmayer, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriter by its counsel, Locke Liddell & Sapp L.L.P. It is expected that the Series 2004A Bonds will be available for delivery to DTC in book-entry only form on or about April 28, 2004.

UBS FINANCIAL SERVICES INC.

March 31, 2004

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 2004A 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. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under such document shall, under any circumstances, create any implications that there has been no change in the affairs of the Department or other matters described 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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit I specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2004A BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004A 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 UNDERWRITER MAY OFFER AND SELL THE SERIES 2004A 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 UNDERWRITER.

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OFFICIAL STATEMENT

Relating to

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

\$4,140,000

**Taxable Junior Lien Single Family
Variable Rate Mortgage Revenue Bonds
Series 2004A**

INTRODUCTION

General

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its \$4,140,000 Taxable Junior Lien Single Family Variable Rate Mortgage Revenue Bonds, Series 2004A (the "Series 2004A Bonds"). Terms used but not otherwise defined herein shall have the respective meanings set forth in "APPENDIX A -- GLOSSARY."

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

The Series 2004A Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on March 11, 2004, and a Fourth Supplemental Junior Lien Trust Indenture (Series Supplement 2004A), dated as of April 1, 2004 (the "2004A Series Supplement"), between the Department and the Trustee. All obligations issued pursuant to the Junior Lien Trust Indenture, including the Prior Junior Lien Bonds, the Series 2004A Bonds and any additional obligations, are collectively referred to herein as the "Obligations." All Obligations issued pursuant to the Junior Lien Trust Indenture are and will be equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Junior Lien Trust Indenture; provided, however that the Department has reserved the right to issue obligations under the Junior Lien Trust Indenture which are subordinated in the right of repayment to the Obligations. See "SECURITY FOR THE SERIES 2004A BONDS."

The Department and its predecessor in interest, the Agency, have previously issued thirty-one series (of which fifteen series remain outstanding) of its Single Family Mortgage Revenue Bonds (the "Senior Lien Bonds") pursuant to the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, as supplemented and amended by the First through Thirty-Fifth Supplemental Single Family Mortgage Revenue Bond Trust Indentures (as supplemented and amended, the "Senior Lien Trust Indenture"), by and

between the Department or its predecessor, the Agency, and J.P. Morgan Trust Company, National Association, as successor trustee (the "Senior Lien Indenture Trustee"). Pursuant to the Senior Lien Trust Indenture, the Department (as successor to the functions of the Agency) is authorized to, among other things, acquire, and enter into advance commitments to acquire, mortgage loans secured by mortgages on residential housing and to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such mortgage loans, and to pledge or grant security interests in such mortgages, mortgage loans or other property of the Department, to secure the payment of the Senior Lien Bonds (the "Senior Lien Mortgage Loans"). See "APPENDIX C - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." In addition to the Senior Lien Bonds, the Department has also previously issued its Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A (the "Series 1994A Bonds"), its Taxable Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994B (the "Taxable Series 1994B Bonds") and its Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A (the "Taxable Series 2002A Bonds") (the Series 1994A Bonds, the Taxable Series 1994B Bonds and the Taxable Series 2002A Bonds, collectively, the "Prior Junior Lien Bonds"), of which only the Taxable Series 2002A Bonds remain outstanding, pursuant to a Junior Lien Trust Indenture, dated as of May 1, 1994 (the "Master Indenture"), between the Department and Bank One, National Association, predecessor to J.P. Morgan Trust Company, National Association, a national banking association having a corporate trust office in Austin, Texas (together with its successors in such capacity, the "Trustee"), a First Supplemental Junior Lien Trust Indenture (Series Supplement 1994A), dated as of May 1, 1994, a Second Supplemental Junior Lien Trust Indenture (Series Supplement 1994B), dated as of May 1, 1994 and a Third Supplemental Junior Lien Trust Indenture (Series Supplement 2002A) dated as of March 1, 2002. The Master Indenture, as amended and supplemented is referred to herein as the "Junior Lien Trust Indenture". The Prior Junior Lien Bonds are payable solely from the Revenues and Funds pledged for the payment thereof as more fully described herein on a basis which is junior and subordinate to the pledge securing the Department's Senior Lien Bonds.

It is anticipated that the net proceeds of the Series 2004A Bonds will be used to provide down payment and closing cost assistance to eligible borrowers in connection with mortgage loans made under Program 61. See "THE PROGRAM AND THE MORTGAGE LOANS."

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

Monies under the Senior Lien Trust Indenture only become Surplus Revenues available to be released to pay debt service on the Obligations to the extent such revenues are in excess of (i) all current debt service obligations on the Senior Lien Bonds issued thereunder, including Swap Agreement Periodic Payments, and (ii) all expenses of the Department in administering the programs related to the Senior Lien Bonds. In addition, prior to each release the Department must demonstrate that projected revenues under the Senior Lien Trust Indenture will be sufficient to pay debt service on the Senior Lien Bonds and expenses of the Department in the then current and each succeeding Bond Year and that the assets held under the Senior Lien

Trust Indenture are at least equal to one hundred (100%) of the aggregate principal amount of the Senior Lien Bonds outstanding under the Senior Lien Trust Indenture. See "SECURITY FOR THE SERIES 2004A BONDS."

THE SERIES 2004A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, FREDDIE MAC AND FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2004A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER.

There follows in this Official Statement, among other things, a brief description of the Department and its activities, together with summaries of the terms of the Series 2004A Bonds, the Junior Lien Trust Indenture, the Senior Lien Trust Indenture and certain provisions of the Act. All references herein to the Act, the Senior Lien Trust Indenture, the Junior Lien Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 2004A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Junior Lien Trust Indenture.

PLAN OF FINANCE

The proceeds of the Series 2004A Bonds will be used to provide down payment and closing cost assistance to eligible borrowers in connection with mortgage loans made under Program 61 (See "THE PROGRAM AND THE MORTGAGE LOANS – Mortgage Assistance Program") and to pay the Costs of Issuance of the Series 2004A Bonds.

The Department has sold its Single Family Mortgage Revenue Refunding Bonds, 2004 Series A (the "Series A Bonds") and its Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B (the "Series B Bonds," together with the Series A Bonds, the "Series A/B Bonds") concurrently with the Series 2004A Bonds. It is expected that the Series A/B Bonds will be delivered at closing on the same day as the Series 2004A Bonds.

In connection with the issuance of the Series B Bonds, the Department will enter into an interest rate swap agreement (the "Swap Agreement") with UBS AG (the "Swap Provider"), which will become effective upon the sale of the Series B Bonds. Pursuant to the Swap Agreement payments will begin accruing September 1, 2004 and payments will be made semiannually beginning on March 1, 2005, computed based on a variable rate intended to approximate the variable interest rate on the Series B Bonds, on a notional amount corresponding to the outstanding principal amount of the Series B Bonds. The Department will agree to pay to the Swap Provider on such dates, payments computed at a fixed rate, on the same notional amount. Payments from the Department to the Swap Provider under the Swap Agreement are subordinate to payments of principal of and interest on the Bonds. The Department's payments under the Swap Agreement to UBS AG will be insured by Financial Security Assurance Inc. (the "Swap Policy"). The Swap Policy does not insure payments of principal of or interest on the Series A/B Bonds. See "SWAP AGREEMENT."

SOURCES AND USES OF FUNDS

Sources of Funds

Series 2004A Bond Proceeds	<u>\$4,140,000</u>
Total Sources of Funds	<u>\$4,140,000</u>

Uses of Funds

Series 2004A Acquisition Account	\$4,004,199
Series 2004A Reserve Account	124,200
Underwriting Fee	9,762
Costs of Issuance	<u>1,839</u>
Total Uses of Funds	<u>\$4,140,000</u>

THE DEPARTMENT

General

The Department, a public and official governmental agency of the State of Texas (the "State") and a body corporate and politic, was created pursuant to and in accordance with Chapter 2306, Government Code, as amended from time to time (together with other laws of the State applicable to the Department, the "Act"). The Department is the successor agency to the Texas Housing Agency (the "Agency") and the Texas Department of Community Affairs (the "TDCA"), both of which were abolished by the Act and their functions and obligations transferred to the Department. One of the purposes of the Department is to provide for the housing needs of individuals and families of low, very low and extremely low income and families of moderate income in the State. Pursuant to the Act, the Department may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department.

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

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

Governing Board

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

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

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

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

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

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

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

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

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

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

Administrative Personnel

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

employees necessary for the discharge of the duties of the Department, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Department's bonds.

Currently, the Department has 276 employees. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

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

BYRON V. JOHNSON, Director of Bond Finance and Co-Investment Officer. Byron V. Johnson has served the Department as Director of Bond Finance since July 1999. He is responsible for the development and administration of the Department's Single Family Mortgage Revenue Bond program and the Department's Commercial Paper Program. Mr. Johnson also oversees ongoing compliance monitoring and disclosure requirements related to the Department's investments and single family and multifamily bond programs. Mr. Johnson's prior career experience includes housing finance investment banking and internal auditing in the securities industry. Mr. Johnson earned an M.B.A. from the Fuqua School of Business at Duke University and a Bachelor of Business Administration degree in Accounting from Savannah State University. Mr. Johnson currently holds several investment and securities licenses and a Texas real estate license. Mr. Johnson is a Certified Mortgage Banker (CMB), Certified Treasury Professional (CTP) and Certified Housing Development Finance Professional.

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

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

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

The offices of the Department are located at 507 Sabine, Suite 400, Austin, Texas 78701, and the telephone number for the Housing Finance Division of the Department is 512/475-3800.

THE SERIES 2004A BONDS

General

The Series 2004A Bonds will be dated the date of delivery and will mature, subject to prior redemption as described below, on September 1, 2036. The Series 2004A Bonds will be issued as fully registered bonds in book-entry-only form and will be subject to the provisions of the book-entry-only system described under "DTC and Book-Entry" below. While the Series 2004A Bonds bear interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates, individual purchases of Series 2004A Bonds by the beneficial owners will be made in denominations of \$100,000 and any whole multiple of \$5,000 in excess of \$100,000. While Series 2004A Bonds bear interest at a Long-Term Interest Rate, individual purchases of Series 2004A Bonds by the beneficial owners will be made in denominations of \$5,000 or any whole multiple thereof.

The Series 2004A Bonds will initially bear interest at a Weekly Interest Rate. The method of determining interest rates on the Series 2004A Bonds is subject to being changed from a Weekly Interest Rate to a Daily Interest Rate, Bond Interest Term Rates, a Long-Term Interest Rate or an Alternate Rate as described below. Each period during which a Daily Interest Rate is in effect is known as a Daily Interest Rate Period, each period during which a Weekly Interest Rate is in effect is known as a Weekly Interest Rate Period, each period during which Bond Interest Term Rates are in effect is known as a Short-Term Interest Rate Period, each period during which a Long-Term Interest Rate is in effect is known as a Long-Term

Interest Rate Period, and each period during which an Alternate Rate is in effect is known as an Alternate Rate Period. An Interest Rate Period means any Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or Alternate Rate Period.

Interest on the Series 2004A Bonds shall be payable on each Interest Payment Date for such Series 2004A Bonds by the Paying Agent during any Daily Interest Rate Period, Weekly Interest Rate Period, or Long-Term Interest Rate Period, by check mailed on the date on which interest is due to the Owners of the Series 2004A Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the addresses of Owners as they shall appear on the registration books maintained pursuant to the 2004A Series Supplement. In the case of (i) Series 2004A Bonds bearing interest at Bond Interest Term Rates, (ii) Series 2004A Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility (the "Escrow Bonds") or (iii) Series 2004A Bonds bearing interest at other than a Bond Interest Term Rate in an aggregate principal amount in excess of \$1,000,000, as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date for such Series 2004A Bonds, shall have provided, to the Paying Agent wire transfer instructions, interest payable on such Series 2004A Bonds shall be paid by wire transfer (in the continental United States) of immediately available funds in accordance with the wire transfer instructions provided by the Owner of such Series 2004A Bonds (or by the Remarketing Agent on behalf of such Owner); provided, however, that during any Short-Term Interest Rate Period for any Series 2004A Bonds, interest on any Series 2004A Bond shall be payable only upon presentation and surrender of such Series 2004A Bond to the Tender Agent at its Principal Office.

As the Paying Agent for the Series 2004A Bonds, J.P. Morgan Trust Company, National Association will keep the books of the Department for registration, registration of transfer, exchange and payment of the Series 2004A Bonds as provided in 2004A Series Supplement.

The Series 2004A Bonds will be subject to optional and mandatory tender for purchase under certain circumstances as described below.

Interest Rates

Interest on the Series 2004A Bonds will be computed, in the case of a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period or an Alternate Rate Period, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed and, in the case of a Long-Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months. The first Interest Rate Period for the Series 2004A Bonds shall commence on the date of original issuance of the Series 2004A Bonds and shall be a Weekly Interest Rate Period. On or prior to such date of original issuance, the initial Weekly Interest Rate borne by the Series 2004A Bonds shall be determined by the Remarketing Agent.

The term of the Series 2004A Bonds will be divided into separate Interest Rate Periods selected by the Department during each of which the Series 2004A Bonds will bear interest at either a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, a Long-Term Interest Rate or an Alternate Rate (other than Escrow Bonds which shall bear interest at the Bank Bond Interest Rate). During a Short-Term Interest Rate Period, Series 2004A Bonds may bear interest at different Bond Interest Term Rates and have Bond Interest Terms of different durations. At no time will any Series 2004A Bond bear interest in excess of fifteen percent (15%) per annum (the "Maximum Rate").

For any Daily Interest Rate Period or Weekly Interest Rate Period, interest on the Series 2004A Bonds will be payable on each March 1 and September 1, commencing September 1, 2004, or the next Business Day if such day is not a Business Day. Interest will be paid for the immediately preceding semiannual period beginning on September 1 and ending on February 28 or 29, as applicable, or beginning

on March 1 and ending on August 31, as the case may be. Interest shall also be payable on the last day of any Daily Interest Rate Period or Weekly Interest Rate Period as applicable. Interest payable on September 1, 2004 will be payable from the Delivery Date. For any Short-Term Interest Rate Period or Long-Term Interest Rate Period, interest will be payable on each Interest Payment Date for the period commencing on and including the immediately preceding Interest Accrual Date and ending on and including the day immediately preceding the Interest Payment Date.

Daily Interest Rate Period. The Daily Interest Rate will be determined by the Remarketing Agent by 9:30 a.m., New York City time, on each Business Day during a Daily Interest Rate Period. The Daily Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of taxable obligations comparable to the Series 2004A Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2004A Bonds, would enable the Remarketing Agent to sell the Series 2004A Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Daily Interest Rate for the Series 2004A Bonds for any day during a Daily Interest Rate Period, the interest rate for such day will be the same as the Daily Interest Rate for the immediately preceding Business Day, if the Daily Interest Rate for such preceding Business Day was determined by the Remarketing Agent. If for any reason the Remarketing Agent did not determine the Daily Interest Rate for the immediately preceding day, or if a Daily Interest Rate determined by the Remarketing Agent for any day is held to be invalid or unenforceable by a court of law, the interest rate for the Series 2004A Bonds for such day will be a rate per annum equal to the BMA Swap Index Rate on the day the Daily Interest Rate would otherwise be determined by the Remarketing Agent.

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

The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of taxable obligations comparable to the Series 2004A Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2004A Bonds, would enable the Remarketing Agent to sell the Series 2004A Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for the Series 2004A Bonds for any week during a Weekly Interest Rate Period, the interest rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week, if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If for any reason the Remarketing Agent did not determine the Weekly Interest Rate for the immediately preceding week, or if a Weekly Interest Rate determined by the Remarketing Agent for any week is held to be invalid or unenforceable by a court of law, the interest rate for the Series 2004A Bonds for such week will be the BMA Swap Index Rate on the day the Weekly Interest Rate would otherwise be determined by the Remarketing Agent.

Short-Term Interest Rate Period. During each Short-Term Interest Rate Period, each Series 2004A Bond will bear interest at the Bond Interest Term Rate determined for the Bond Interest Term applicable to such Series 2004A Bond by the Remarketing Agent no later than the first day of each Bond Interest Term. The Bond Interest Term and the Bond Interest Term Rate need not be the same for any two Series 2004A Bonds, even if determined on the same date. Each Bond Interest Term will be a period ranging from 1 to 180 days as determined by the Remarketing Agent to be the period which, together with all other Bond Interest Terms for all Series 2004A Bonds then outstanding, will result in the lowest overall interest expense on the Series 2004A Bonds for the next succeeding 180 days. In determining the number of days of each Bond Interest Term, the Remarketing Agent will take into account the following factors: (a) existing short-term tax-exempt market rates and indices of such short-term rates, (b) existing market supply and demand for short-term tax-exempt securities, (c) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Series 2004A Bonds, (d) general economic conditions, (e) economic and financial conditions that may affect or be relevant to the Series 2004A Bonds, (f) the Bond Interest Terms of other Series 2004A Bonds and (g) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, determines to be relevant.

The Remarketing Agent will announce, by no later than 9:00 a.m., New York City time, on the first day of each Bond Interest Term, the ranges of possible Bond Interest Terms. The Bond Interest Term and the Bond Interest Term Rate need not be the same for any two of the Series 2004A Bonds, even if determined on the same date.

The Bond Interest Term Rate for each Bond Interest Term for each Series 2004A Bond will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of taxable obligations comparable to the Series 2004A Bonds in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under the then-prevailing market conditions) to be the minimum interest rate which, if borne by such Series 2004A Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Series 2004A Bond on the date and at the time of such determination at a price (without regard to accrued interest) equal to the principal amount thereof.

If for any reason a Bond Interest Term for any Series 2004A Bond cannot be determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, such Bond Interest Term will be 30 days, provided that if the last day so determined is not a day immediately preceding a Business Day, such Bond Interest Term will end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding any maturity date of the Series 2004A Bonds, such Bond Interest Term will end on the day immediately preceding the maturity date. If for any reason a Bond Interest Term Rate for any Series 2004A Bond is not so established by the Remarketing Agent for any Bond Interest Term, or such Bond Interest Term Rate is determined by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term shall be the rate per annum equal to seventy percent (70%) of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the first day of such Bond Interest Term with a maturity that most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being so calculated.

Any Series 2004A Bond purchased on behalf of the Department and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Bond Interest Term for that Series 2004A Bond shall have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next Business Day.

At any time during a Short-Term Interest Rate Period, the Department may elect that the Series 2004A Bonds no longer shall bear interest at Bond Interest Term Rates (so long as a Liquidity Facility will be in effect after such Interest Rate Period adjustment) and shall instead bear interest at a Weekly Interest Rate, a Long-Term Interest Rate or a Daily Interest Rate as specified in such election.

Long-Term Interest Rate Period. The duration of a Long-Term Interest Rate Period will be determined by the Department, which duration will be at least 181 days. The Long-Term Interest Rate for any Long-Term Interest Rate Period will be determined by the Remarketing Agent on a Business Day no earlier than two weeks before the effective date of such Long-Term Interest Rate Period and no later than the effective date of such Long-Term Interest Rate Period. The Long-Term Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of taxable obligations comparable in the judgment of the Remarketing Agent to the Series 2004A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2004A Bonds, would enable the Remarketing Agent to sell the Series 2004A Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If for any reason the Remarketing Agent does not determine a Long-Term Interest Rate on or prior to the first day of such Long-Term Interest Rate Period, then the Series 2004A Bonds will bear interest at a Weekly Interest Rate, and will continue to bear interest at a Weekly Interest Rate until properly adjusted otherwise as provided in the 2004A Series Supplement.

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

Owners and prospective purchasers of the Series 2004A Bonds should not rely on this Official Statement with respect to information concerning the Series 2004A Bonds on or after adjustment to a Long-Term Interest Rate Period, but should look solely to supplements, revisions or substitutions to this Official Statement for information concerning the Series 2004A Bonds on or after adjustment to a Long-Term Interest Rate Period.

Adjustment of Interest Rate Periods

The Department may elect at any time to adjust the Interest Rate Period on the Series 2004A Bonds from one Interest Rate Period to an alternate Interest Rate Period (or during a Long-Term Interest Rate Period, to establish another Long-Term Interest Rate Period), subject to certain conditions specified in the 2004A Series Supplement, including that a Liquidity Facility will be in effect after adjustment to such Interest Rate Period (other than a Long-Term Interest Rate Period for which the Long-Term Interest Rate is fixed to the maturity date of the Series 2004A Bonds).

If the Department elects to adjust the Series 2004A Bonds to a different Interest Rate Period (including during a Long-Term Interest Rate Period, the establishment of a new Long-Term Interest Rate Period), all of the Series 2004A Bonds will be subject to such different Interest Rate Period. The written direction by which the Department makes such election will specify (a) in the case of an adjustment to a Long-Term Interest Rate Period, the duration of such Long-Term Interest Rate Period; (b) the effective date of the adjustment to a different Interest Rate Period, which effective date will be (i) a Business Day not earlier than the 12th day (15th day in the case of an adjustment to a Daily Interest Rate Period, a Weekly Interest Rate Period or Short-Term Interest Rate Period from a Long-Term Interest Rate Period, and 30th day in the case of an adjustment to a, or the establishment of another, Long-Term Interest Rate Period) following the second Business Day after receipt by the Paying Agent of such direction from the Department, (ii) in the case of an adjustment from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Series 2004A Bonds would otherwise be subject to optional redemption during such Long-Term Interest Rate Period if such adjustment did not occur, (iii) in the case of an adjustment from a Daily Interest Rate Period or a Weekly Interest Rate Period to a Short-Term Interest Rate Period, the day immediately following the last day of such Daily Interest Rate Period or Weekly Interest Rate Period and (iv) in the case of an adjustment from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period; and (c) the date of delivery for the Series 2004A Bonds to be purchased. With respect to any adjustment to a Long-Term Interest Rate Period, such direction of the Department may specify redemption prices greater, and after periods longer, than those set forth in "THE SERIES 2004A BONDS – Redemption Provisions - Optional Redemption" below. A change to a different Interest Rate Period may not take place unless a Liquidity Facility is in existence as required by the 2004A Series Supplement.

The Paying Agent will give notice by first class mail of any adjustment to a new Interest Rate Period not less than 12 days (15 days if the then-current Interest Rate Period is a Long-Term Interest Rate Period, and 30 days in the case of an adjustment to a, or establishment of another, Long-Term Interest Rate Period) prior to the effective date of such new Interest Rate Period. Such notice will state (a) that the interest rate on the Series 2004A Bonds will be adjusted to a Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates or a Long-Term Interest Rate, or continue to be a Long-Term Interest Rate, as appropriate, unless in the case of an adjustment to a, or establishment of another, Long-Term Interest Rate Period, the Department elects, on or prior to the date of determination of such Long-Term Interest Rate, to rescind its election to cause such adjustment, in which case the Series 2004A Bonds, if being adjusted from a Daily Interest Rate Period, a Weekly Interest Rate Period or a Short-Term Interest Rate Period, will continue to bear interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates as in effect prior to such proposed adjustment in the Interest Rate Period, or, if being adjusted from a Long-Term Interest Rate Period, will bear interest at a Weekly Interest Rate, for the period commencing on the date which would have been the effective date of such proposed Interest Rate Period; (b) the effective date of such different Interest Rate Period, and in the case of an adjustment to a, or the establishment of another, Long-Term Interest Rate Period, the last day of such Long-Term Interest Rate Period or in the case of an adjustment to a Short-Term Interest Rate Period, that a Bond Interest Term and a Bond Interest Term Rate for each Series 2004A Bond will be determined not later than the first day of such Bond Interest Term; (c) that the Series 2004A Bonds are subject to mandatory tender for purchase on the effective date of the new Interest Rate Period; and (d) the applicable purchase price on such date.

Upon the failure of an adjustment to a different Interest Rate Period, the Series 2004A Bonds will bear interest as provided in clause (a) of the notice described above.

If the Department determines to adjust the Series 2004A Bonds to a different Interest Rate Period (other than a Long-Term Interest Rate Period for which the Long-Term Interest Rate is fixed to the maturity date of the Series 2004A Bonds), the Department, as a condition to exercising its option to cause such a conversion, must deliver to the Paying Agent evidence that the Liquidity Facility to be in effect after the conversion will satisfy the requirements of the 2004A Series Supplement.

Establishment of an Alternate Rate

The Department, with the prior written consent of the Remarketing Agent and the Bank, if any, is authorized to amend or supplement the 2004A Series Supplement to provide for (or subsequently modify) an alternate rate determination method, which may include provisions for a dutch auction method of determination, (the "Alternate Rate") for the Series 2004A Bonds. Such amendment shall specify the period and dates for accrual and payment of interest (an "Alternate Rate Period"), the intervals and dates at which the rate will be established and the intervals and procedures by which the Series 2004A Bonds may be optionally or mandatorily tendered and the redemption provisions for Series 2004A Bonds in an Alternate Rate Period. These changes will be noted on the Series 2004A Bonds or an amended Series 2004A Bond form will be provided for in the amendment in order to reflect them. The election to change the interest rate determination method is to be made by the Department, with the prior written consent of the Remarketing Agent and the Bank, if any, in the manner prescribed by the amendment or supplement to the 2004A Series Supplement.

A change to an Alternate Rate Period from another Interest Rate Period shall cause a mandatory purchase of the Series 2004A Bonds. The requirements of the 2004A Series Supplement regarding notice, receipt of the prior written consent of the Remarketing Agent, the Bond Insurer and the Bank, if any, shall apply to any such change. The effective date of a change to an Alternate Rate shall be (1) a Business Day not earlier than the 12th day (15th day if the then current Interest Rate Period for the Series 2004A Bonds shall be a Long-Term Interest Rate Period) following the second Business Day after receipt by the Paying Agent of an election by the Department to change to an Alternate Rate Period, (2) in the case of an adjustment from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Series 2004A Bonds would otherwise be subject to optional redemption as set forth below in "THE SERIES 2004A BONDS – Redemption Provisions – Optional Redemption" if such adjustment did not occur and (3) in the case of an adjustment from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period. If a change to an Alternate Rate Period would take effect after a Bond Interest Term, then for any Series 2004A Bonds having Bond Interest Terms which end before the effective date of the Alternate Rate, the Remarketing Agent shall determine the Bond Interest Terms that will best promote an orderly transition to the Alternate Rate Period such that the day next succeeding the last day of all Bond Interest Terms with respect to such Series 2004A Bonds shall be the effective date of the Alternate Rate Period.

Each Alternate Rate is to be set at the minimum rate that the Remarketing Agent determines, in its sole discretion based on market conditions, would be necessary to sell all the Series 2004A Bonds on the day the rate is set at a price (without regarding accrued interest) equal to the principal amount thereof.

The amendment to the 2004A Series Supplement shall establish an index and/or method by which the rate will be set, to be used if the Remarketing Agent does not set an Alternate Rate for an Alternate Rate Period or a court holds that the rate set for the Alternate Rate Period is invalid or unenforceable.

Tender Provisions

THE 2004A SERIES SUPPLEMENT PROVIDES THAT SO LONG AS CEDE & CO. IS THE SOLE REGISTERED OWNER OF THE SERIES 2004A BONDS, ALL TENDERS FOR PURCHASE AND DELIVERIES OF SERIES 2004A BONDS TENDERED FOR PURCHASE OR SUBJECT TO MANDATORY TENDER UNDER THE PROVISIONS OF THE 2004A SERIES SUPPLEMENT SHALL BE MADE PURSUANT TO DTC'S PROCEDURES AS IN EFFECT FROM TIME TO TIME, AND NEITHER THE DEPARTMENT, THE PAYING AGENT, THE TENDER AGENT NOR THE REMARKETING AGENT SHALL HAVE ANY RESPONSIBILITY FOR OR LIABILITY WITH RESPECT TO THE IMPLEMENTATION OF SUCH PROCEDURES.

Tender for Purchase Upon Election of Owner During Daily Interest Rate Period. During any Daily Interest Rate Period, any Series 2004A Bond (other than the Escrow Bonds) will be purchased in whole (or in part if both the amount purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, payable in immediately available funds, upon delivery by such Owner to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 11:00 a.m., New York City time, on such Business Day of an irrevocable written notice which states the principal amount of such Series 2004A Bond and the date on which such Series 2004A Bond is to be purchased, which date will be the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any notice delivered to the Tender Agent or the Remarketing Agent after 11:00 a.m., New York City time, will be deemed to have been received on the next succeeding Business Day.

Tender for Purchase Upon Election of Owner During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Series 2004A Bond (other than the Escrow Bonds) will be purchased in whole (or in part if both the amount purchased and the amount remaining unpurchased will consist of Authorized Denominations) from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, payable in immediately available funds, upon delivery by such Owner to the Tender Agent and the Remarketing Agent at their respective Principal Offices by no later than 4:00 p.m., New York City time, on such Business Day of an irrevocable written notice which states the principal amount of such Series 2004A Bond and the date on which such Series 2004A Bond is to be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of delivery of such notice to the Tender Agent and the Remarketing Agent. Any notice delivered to the Tender Agent or the Remarketing Agent after 4:00 p.m., New York City time, will be deemed to have been received by the Tender Agent on the next succeeding Business Day.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term. On the day next succeeding the last day of each Bond Interest Term (unless such day is the first day of a new Interest Rate Period in which case the Series 2004A Bonds will be subject to mandatory tender for purchase as provided in the next paragraph), the Owner of a Series 2004A Bond shall tender for purchase such Series 2004A Bond and such Series 2004A Bond will be purchased at a purchase price equal to the principal amount thereof payable in immediately available funds. The purchase price of any Series 2004A Bond so purchased shall be payable only upon surrender of such Series 2004A Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Series 2004A Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period (other than the initial Interest Rate Period) or on the day which would have been the first day of an Interest Rate Period had there been no occurrence of an event which resulted in the interest rate on the Series 2004A Bonds not being adjusted, at a purchase price payable in immediately available funds, equal to the principal amount of the Series 2004A Bonds.

Mandatory Tender for Purchase Upon Substitution, Expiration, Cancellation or Termination of Liquidity Facility. Prior to the date when the interest rate on the Series 2004A Bonds is established at a Long-Term Interest Rate fixed to the maturity thereof, if at any time the Paying Agent gives notice in accordance with the 2004A Series Supplement that the Series 2004A Bonds will, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility (other than because of an Immediate Termination Event as defined in "THE LIQUIDITY FACILITY AND THE BANK – Immediate Termination by the Bank"), the Series 2004A Bonds will be subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase:

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

(b) on a Business Day which is at least five days prior to (i) a cancellation of the Liquidity Facility by the Department, (ii) a termination of the Liquidity Facility pursuant to a Notice Termination Event (as defined in "THE LIQUIDITY FACILITY AND THE BANK – Notice Termination by the Bank") written notice of which has been delivered by the Bank to the Department, the Trustee, the Remarketing Agent, the Tender Agent, the Bond Insurer and the Paying Agent, or (iii) an expiration of the Liquidity Facility, except in the case of an Immediate Termination Event.

Notwithstanding the foregoing, in the event that in connection with any such cancellation, termination or expiration of an existing Liquidity Facility and substitution thereof with a Substitute Liquidity Facility, the Department delivers to the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agent, prior to the date that notice of such cancellation, termination or expiration and substitution is given by the Paying Agent, written evidence from each Rating Agency then rating the Series 2004A Bonds to the effect that such cancellation, termination or expiration and substitution in and of itself will not result in the withdrawal or reduction of any rating then applicable to the Series 2004A Bonds, then the Series 2004A Bonds will not be subject to mandatory tender for purchase as provided above solely as a result of such cancellation, termination or expiration and substitution.

Mandatory Tender for Purchase at Election of the Department During Long-Term Interest Rate Period. The Series 2004A Bonds are subject to mandatory tender for purchase during any Long-Term Interest Rate Period (other than a Long-Term Interest Rate Period ending on the stated maturity date of the Series 2004A Bonds) on any date during the period in which such Series 2004A Bonds could be optionally redeemed, as designated by the Department, at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase.

Irrevocable Notice Deemed to be Tender of Series 2004A Bonds. The giving of notice by an Owner of the election to have any Series 2004A Bond purchased during a Daily Interest Rate Period or a Weekly Interest Rate Period will constitute the irrevocable tender for purchase of such Series 2004A Bond regardless of whether such Series 2004A Bond is delivered to the Tender Agent for purchase on the relevant purchase date.

Undelivered Bonds. If funds in the amount of the purchase price of any Series 2004A Bond which has not been delivered to the Tender Agent, in the case of a Series 2004A Bond purchased at the option of the Owner on the date specified for the purchase thereof or, in the case of a Series 2004A Bond subject to mandatory tender for purchase, on the date specified in the 2004A Series Supplement, are available for payment to the Owner of such Series 2004A Bond on such date, from and after the date and time of that required delivery (a) such Series 2004A Bond will be deemed to be purchased and will no longer be deemed to be outstanding under the 2004A Series Supplement; (b) interest will no longer accrue on such Series 2004A Bond; and (c) funds in the amount of the purchase price of such Series 2004A Bond will be held by the Tender Agent for the benefit of the Owner thereof (provided that such Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Series 2004A Bond to the Tender Agent at its Principal Office for delivery of Series 2004A Bonds.

Delivery Address For Tender Notices and Tendered Bonds. Notices in respect of tenders for purchase at the election of Owners during a Daily Interest Rate Period or a Weekly Interest Rate Period and Series 2004A Bonds subject to mandatory purchase as described above must be delivered to the Tender Agent. The

initial address of the Tender Agent to which such notices and Series 2004A Bonds should be delivered is J.P. Morgan Trust Company, National Association, 201 Main Street, Suite 300, Fort Worth, Texas 76102.

Payment of Purchase Price. For payment of the purchase price of any Series 2004A Bond required to be purchased pursuant to the 2004A Series Supplement, such Series 2004A Bond must be delivered at or prior to 12:00 noon, New York City time, on the date specified in the notice relating to such purchase, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program. In the event any such Series 2004A Bond is delivered after 12:00 noon, New York City time, on such specified date, payment of the purchase price need not be made until the Business Day following the date of delivery of such Series 2004A Bond, but such Series 2004A Bond will nonetheless be deemed to have been purchased on the date specified in such notice, and no interest will accrue thereon after such date.

Immediate Termination Event or Suspension Event. The Series 2004A Bonds shall not be subject to mandatory tender as a result of the occurrence of an Immediate Termination Event or a Suspension Event. If the Paying Agent shall receive notice of the occurrence of an Immediate Termination Event or a Suspension Event, within one Business Day following its receipt of such notice, it shall notify the Owners of Series 2004A Bonds that an Immediate Termination Event or a Suspension Event has occurred. See "THE LIQUIDITY FACILITY AND THE BANK – Immediate Termination by the Bank."

Insufficient Funds for Purchase of Series 2004A Bonds. If payment of the purchase price of any Series 2004A Bond shall not be made to any Owner thereof on any purchase date (a "Failed Purchase Date"), such Series 2004A Bond shall be returned by the Tender Agent to the Owner thereof. Thereafter, commencing on the Failed Purchase Date and ending on the date that the Department in its discretion purchases or causes the purchase of all Series 2004A Bonds, the Series 2004A Bonds shall bear interest at a variable rate per annum equal to the BMA Swap Index plus one percent (1%). In the event that the Department purchases or causes the purchase of the Series 2004A Bonds and a Liquidity Facility is in effect, such Series 2004A Bonds shall thereafter bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, or a Long-Term Interest Rate as determined by the Department.

So long as a nominee of the Bond Depository is the sole Owner of the Series 2004A Bonds, all tenders for purchase and deliveries of Series 2004A Bonds tendered for purchase or subject to mandatory tender under the provisions of the 2004A Series Supplement shall be made pursuant to the Bond Depository's procedures as in effect from time to time, and neither the Department, the Tender Agent, the Paying Agent nor the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures.

Redemption Provisions

General. The Series 2004A Bonds are subject to optional and mandatory redemption at various times, and prior to their scheduled maturity at various redemption prices as described below. **The Department anticipates that a substantial portion of the Series 2004A Bonds may be redeemed prior to their scheduled maturity as further set forth below, as the result of the receipt by the Department of amounts representing Surplus Revenues, Residual Revenues and other amounts.**

Optional Redemption. The Series 2004A Bonds shall be subject to redemption prior to maturity, after giving notice as provided in the Master Indenture, as follows:

(a) During a Daily Interest Rate Period or a Weekly Interest Rate Period for the Series 2004A Bonds, the Series 2004A Bonds shall be subject to optional redemption by the Department, in whole or in

part on any Business Day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.

(b) On the day succeeding the last day of any Bond Interest Term with respect to any Series 2004A Bond bearing interest at Bond Interest Term Rates, such Series 2004A Bond shall be subject to optional redemption by the Department, in whole or in part, at a redemption price equal to 100% of the principal amount thereof to be redeemed.

(c) During any Long-Term Interest Rate Period for the Series 2004A Bonds, the Series 2004A Bonds shall be subject to optional redemption by the Department, in whole or in part on any date, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest, if any, to the redemption date (i) on the first day of such Long-Term Interest Rate Period and (ii) during the period set forth below opposite the applicable length of such Long-Term Interest Rate Period:

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

Redemption From Surplus Revenues and Residual Revenues. The Series 2004A Bonds shall be subject to redemption in Authorized Denominations at a Redemption Price equal to the principal amount of the Series 2004A Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, without premium, as set forth below:

(i) In whole or in part, at any time and from time to time at the written direction of the Department (unless otherwise provided in the Indenture) after giving notice as provided in the Master Indenture, from amounts that have been transferred to the Series 2004A Special Redemption Account from the Series 2004A Revenue Account (other than as provided in subparagraph (ii) below);

(ii) In whole or in part, on each September 1 and March 1 after giving notice as provided in the Indenture, from amounts that have been deposited to the Series 2004A Special Redemption Account from the 2004A/B Revenue Account held under the Senior Lien Indenture, either by transfer through the 2004A/B Revenue Account or otherwise; provided, however that the Department may direct otherwise by a Letter of Instructions accompanied by a Cashflow Certificate; and

(iii) In whole or in part, at any time and from time to time, upon giving timely notice of redemption as provided in the Master Indenture, from moneys that have been transferred to the Series 2004A Special Redemption Account from any Fund or Account relating to another Series of Obligations.

The conditions upon which such amounts may be transferred to the Special Redemption Fund and used to redeem Series 2004A Bonds under (i) above are more fully described under the subheadings "Revenue Fund" and "Residual Revenues Fund" contained herein under the caption "THE JUNIOR LIEN TRUST INDENTURE." Moneys transferred to the Special Redemption Fund as described in (ii) above may derive from or relate to any Series of Obligations, including additional Obligations, other than the Series 2004A Bonds.

Selection of Bonds for Redemption. In the event of redemption of less than all of the Series 2004A Bonds, the Trustee shall select the Series 2004A Bonds to be redeemed at random on a pro rata basis, unless otherwise provided in a Letter of Instructions accompanied by a Cashflow Certificate. For purposes of selecting Series 2004A Bonds for redemption, Series 2004A Bonds shall be deemed to be composed of Authorized Denominations and any such Authorized Denomination may be separately redeemed.

Assumptions Regarding Certain Redemptions

The Department expects to receive certain Surplus Revenues representing payments and prepayments of principal on the Senior Lien Mortgage Loans and to apply all or a portion of such monies to the redemption of the Series 2004A Bonds and the Senior Lien Bonds. Funds which are derived as Surplus Revenues of the Senior Lien Trust Indenture will be applied for the redemption of Series 2004A Bonds at the discretion of the Department. Subject to providing for payment when due of the principal of and interest on the Obligations, the Department may use funds under the Senior Lien Indenture which otherwise would become Surplus Revenues to redeem Senior Lien Bonds. It is anticipated that the Department will utilize Surplus Revenues which are available for redemption to redeem the Series 2004A Bonds. Therefore, a substantial portion of the Series 2004A Bonds is expected to be redeemed prior to their scheduled maturity at a redemption price of par. See "ASSUMPTIONS."

Notice of Redemption

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

Partial Redemption. In the event that a Series 2004A Bond subject to redemption is in a denomination larger than \$5,000 in principal amount, a portion of such Series 2004A Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof. Upon surrender of any Series 2004A Bond for redemption in part, the Trustee will authenticate and deliver an exchange Series 2004A Bond, in an aggregate principal amount equal to the unredeemed portion of the surrendered Series 2004A Bond. See "DTC and Book-Entry."

Purchase in Lieu of Redemption. The Trustee, upon the written direction of the Department, shall apply monies held in the account related to the Series 2004A Bonds within the Special Redemption Fund to purchase Series 2004A Bonds on the open market in lieu of redemption so long as the purchase price (excluding accrued interest but including any brokerage and other charges) of any of such Series 2004A Bonds does not exceed one hundred percent (100%) of the principal amount of such Series 2004A Bonds. All Series 2004A Bonds so purchased must be canceled by the Trustee.

DTC and Book-Entry

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

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

Purchases of Series 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' Records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2004A Bonds, except in the event that use of the book-entry system for the Series 2004A Bonds is discontinued.

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

credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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

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

Discontinuation of Book-Entry-Only System

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

BOND INSURANCE

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

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

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

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

THE LIQUIDITY FACILITY AND THE BANK

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

The Liquidity Facility

The Department will cause to be executed and delivered to the Trustee, simultaneously with the issuance of the Series 2004A Bonds, the Liquidity Facility, by and among the Department, the Tender Agent and the Liquidity Provider, providing for the purchase, in accordance with the terms thereof, of the Series 2004A Bond, which is in a Daily Rate Period or a Weekly Rate Period and is tendered for purchase, as provided in the Indenture, and not remarketed; provided, however, that Series 2004A Bonds owned by the Department or any Affiliate (as defined in the Liquidity Facility) of the Department are not eligible for

purchase. Each of the Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined in this Official Statement, the Liquidity Facility or the Indenture, and reference thereto is made for full understanding of their import. *Unless otherwise noted below, (i) this summary of terms and provisions is applicable to the Liquidity Facility described in this Official Statement and (ii) the Liquidity Facility supports only the Series 2004A Bonds described therein.*

General. The purchase price of each Series 2004A Bond tendered for purchase is payable from the proceeds of the remarketing of such Series 2004A Bond and, to the extent remarketing proceeds are insufficient or not available therefor, from amounts available under the Liquidity Facility. The Liquidity Facility requires the Liquidity Provider to provide funds for the purchase of Series 2004A Bonds which are "Eligible Bonds" (as defined in the Liquidity Facility), subject to certain conditions described below. Series 2004A Bonds to be purchased and held by the Liquidity Provider will bear interest at the Bank Rate in accordance with (and as defined in) the Liquidity Facility.

The amount of the Liquidity Facility at any one time is determined by adding the Available Principal Commitment and the Available Interest Commitment therefor. The Available Principal Commitment is equal to the initial principal amount of the related Series 2004A Bonds adjusted as follows: (a) downward by the amount of any mandatory reduction of such amount pursuant to the Liquidity Facility, (b) downward by the principal amount of Series 2004A Bonds purchased by the Liquidity Provider pursuant to the related Liquidity Facility and (c) upward by the principal amount of Series 2004A Bonds that were purchased by the Liquidity Provider and subsequently remarketed by the Remarketing Agent or retained by the Liquidity Provider in lieu of sale pursuant to a remarketing. The Available Interest Commitment is equal to 189 days interest with respect to the initial amount of the Available Principal Commitment based on an assumed rate of 12% per annum and a 365-day year for the actual number of days elapsed. The Available Interest Commitment will, from time to time, be reduced commensurate with any reduction to the Available Principal Commitment as described in clause (a) or (b) of this paragraph and increased commensurate with any increase in the Available Principal Commitment as described in clause (c) of this paragraph.

The Liquidity Facility will be effective on the date of delivery of the Series 2004A Bonds (the "Effective Date") and shall be effective from the Effective Date until the earliest of (i) April 27, 2005, or to an extended date as may become effective under the Liquidity Facility (the "Expiration Date"), (ii) the date on which no Series 2004A Bonds are Outstanding, (iii) the close of business on the Conversion Date (as defined in the Liquidity Facility), (iv) the date on which the Liquidity Provider terminates its obligations to purchase Series 2004A Bonds pursuant to the Liquidity Facility, (v) the first date on which the Bonds are paid in full, (vi) the date on which the Available Commitment (as defined in the Liquidity Facility) has been reduced to zero or terminated in its entirety pursuant to the Liquidity Facility, (vii) the occurrence of a Substitution Date or (viii) the date on which the Senior Lien Agreement (as defined below) is terminated.

On each date on which Series 2004A Bonds are to be purchased by the Liquidity Provider pursuant to an optional tender or mandatory tender for purchase, by no later than 10:30 a.m., New York time, the Tender Agent will give notice to the Liquidity Provider of the Series 2004A Bonds required to be purchased and the amount of principal and interest, respectively, required for such purchase, as set forth in the Liquidity Facility. Upon receipt of such notice, the Liquidity Provider, subject to satisfaction of the conditions precedent to purchase as set forth in the Liquidity Facility, shall, by no later than 1:30 p.m., New York time, transfer to the Tender Agent, in immediately available funds, an amount equal to the purchase price of all Series 2004A Bonds required to be purchased by the Liquidity Provider.

The obligations of the Liquidity Provider to purchase Series 2004A Bonds pursuant to the Liquidity Facility is subject to the condition precedent that no Insurer Event of Default or Suspension Event shall have

occurred. An "Insurer Event of Default" is any event specified in paragraph (a), (e), (f), (g) or (h)(i) under "Events of Default" below. A "Suspension Event" is the suspension of the obligation to purchase Series 2004A Bonds by reasons of the remedies set forth in paragraph (2) under "Remedies Upon an Event of Default" below.

The Liquidity Facility and the obligation of the Liquidity Provider to purchase Series 2004A Bonds will terminate upon the termination of that certain standby bond purchase agreement relating to the Series B Bonds.

Events of Default. As described below, the Liquidity Facility provides that the obligation of the Liquidity Provider to purchase Series 2004A Bonds tendered by Bondholders or subject to mandatory tender may be terminated or suspended upon the occurrence of certain events. If a Liquidity Facility is terminated, sufficient funds may not be available to purchase Series 2004A Bonds tendered by the Bondholders thereof. The following events are the Events of Default under the Liquidity Facility:

(a) Any principal or interest due on the Series 2004A Bonds (including Bank Bonds, as defined in the Liquidity Facility) is not paid when due by FSA when, as, and in the amounts required to be paid pursuant to the terms of the Policy; or

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

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

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

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

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

(g) An Insurer Event of Default shall occur under the standby bond purchase agreement relating to the Series B Bonds (the "Senior Lien Agreement"), or FSA shall fail to make any payment when due under any bond insurance policy (other than the Policy) issued by it insuring obligations publicly rated by any of Moody's, Fitch or S&P, and such failure shall continue for a period of 30 Business Days unless the obligation of FSA to pay is being contested by FSA in good faith by appropriate proceedings; or

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

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

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

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

(l) An "Event of Default" shall occur with respect to the Senior Lien Agreement, or the Department shall be in default in the payment of any principal or interest with respect to any Debt (as defined in the Liquidity Facility) ranking on a parity with the Series 2004A Bonds, or the Department shall default in the performance of any agreement (including any Related Document) under which any such obligation is created if the effect of such default is to cause such obligation to become, or to permit any holder or beneficiary thereof, or a trustee on behalf thereof, with notice if required, to declare such obligation to be, due prior to its normal maturity, or a moratorium shall have been declared or announced (whether or not in writing) by the Department with respect to any of the Debt ranking on a parity with the Series 2004A Bonds, and any of the foregoing may (in the reasonable judgment of the Liquidity Provider) have a material adverse effect on the ability of the Department to perform its obligations under the Liquidity Facility or under the Related Documents to which it is a party; or

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

(n) Any material provision of the Liquidity Facility or any Related Document (other than the Policy) shall at any time for any reason cease to be valid and binding on the Department or any other party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Department or such other party thereto or by any governmental agency or

authority having jurisdiction, or the Department or such other party shall deny that it has any or further liability or obligation under any such document.

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

(1) In the case of an Event of Default as specified in either paragraph (b) or (c) above, the Liquidity Provider may give written notice (a "Notice of Termination") of such Event of Default to the Trustee, the Tender Agent, the Paying Agent, the Department and the Remarketing Agent requiring a Termination Tender (as defined in the Liquidity Facility). The obligation of the Liquidity Provider to purchase Series 2004A Bonds shall terminate at the close of business on the Business Day specified in such Notice of Termination, which shall be a Business Day not less than 10 calendar days after the date such Notice of Termination is received by the Trustee and, on such date, the Available Commitment shall terminate and the Liquidity Provider shall be under no further obligation to purchase Series 2004A Bonds.

(2) In the case of an Event of Default as specified in paragraph (d), or a Default (as defined in the Liquidity Facility) specified in paragraph (g) or clause (ii) of paragraph (h) above (each, a "Suspension Event"), the Liquidity Provider's obligations to purchase Series 2004A Bonds under the Liquidity Facility shall immediately be suspended without notice or demand to any person and, thereafter, the Liquidity Provider shall be under no obligation to purchase Series 2004A Bonds until the Available Commitment (as defined in the Liquidity Facility) is reinstated as described below. Promptly upon the occurrence of such Suspension Event, the Liquidity Provider shall notify the Department, FSA, the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agent of such suspension in writing; provided, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment and of the Liquidity Provider's obligation to purchase Series 2004A Bonds pursuant to the Liquidity Facility. The Department shall promptly direct the Tender Agent in writing to notify all Bondholders of any suspension of the obligation of the Liquidity Provider to purchase Series 2004A Bonds as a result of the occurrence of such Suspension Event. If at any time prior to the earlier of (i) the then current Expiration Date and (ii) the date that is three years following the suspension of the obligation of the Liquidity Provider to purchase Series 2004A Bonds, (x) the Default or Event of Default which gave rise to such suspension is cured or ceases to be continuing and (y) the obligation of the Liquidity Provider to purchase Series 2004A Bonds under the Liquidity Facility has not otherwise terminated, then, upon written notice from the Bank to the Tender Agent to such effect, the obligation of the Liquidity Provider to purchase Series 2004A Bonds under the Liquidity Facility shall be automatically reinstated. If the Default or Event of Default which gave rise to the suspension of the obligations of the Liquidity Provider to purchase Series 2004A Bonds under the Liquidity Facility has not been cured prior to, or is continuing on, the date that is three years following the suspension of the obligation of the Liquidity Provider to purchase Series 2004A Bonds, (including the pendency of any litigation involving the validity of the Policy), then, the obligation of the Liquidity Provider to purchase Series 2004A Bonds shall be terminated upon written notice from the Liquidity Provider to the Department, the Trustee, the Tender Agent, the Remarketing Agent and FSA to such effect and, thereafter, the Liquidity Provider shall have no further obligations to purchase any Series 2004A Bonds; provided that the Liquidity Provider shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Liquidity Provider to purchase Series 2004A Bonds under the Liquidity Facility. Notwithstanding the foregoing provisions of this paragraph (2), the Tender Agent shall provide written notice to the Bondholders, the Department, FSA and the Remarketing

Agent of any suspension, termination or reinstatement of the Liquidity Provider's obligations described in this paragraph (2).

(3) In the case of an Insurer Event of Default the Available Commitment and the obligation of the Liquidity Provider to purchase Series 2004A Bonds shall immediately terminate without notice or demand to any person and, thereafter, the Liquidity Provider shall be under no obligation to purchase Series 2004A Bonds. Promptly upon such Insurer Event of Default, the Liquidity Provider shall give written notice of the same to the Trustee, the Tender Agent, the Department, FSA and the Remarketing Agent; provided, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the Liquidity Provider's obligation to purchase Series 2004A Bonds pursuant to the Liquidity Facility. The Trustee shall immediately notify all Bondholders of the termination of the Available Commitment and the obligation of the Liquidity Provider to purchase the Series 2004A Bonds.

(4) Upon the occurrence of an Event of Default as specified in paragraph (i), (j), (k), (l), (m) or (n) above, the Liquidity Provider shall have all remedies provided at law or equity, including, without limitation, mandamus or specific performance; provided, however, that the Liquidity Provider shall not have the right to terminate its obligation to purchase Series 2004A Bonds, to declare any amount due under the Liquidity Facility due and payable, or to accelerate the maturity date of any Series 2004A Bonds except as provided in the Indenture. Without limiting the generality of the foregoing, the Liquidity Provider agrees to purchase Series 2004A Bonds on the terms and conditions of the Liquidity Facility notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Department. The Liquidity Provider will not assert as a defense to its obligation to purchase Series 2004A Bonds under the Liquidity Facility (I) the institution or pendency of a bankruptcy, insolvency or similar proceeding with respect to the Department, or (ii) a determination by a court of competent jurisdiction in a bankruptcy, insolvency or similar proceeding with respect to the Department that the Liquidity Facility is not enforceable against the Department under applicable bankruptcy, insolvency or similar laws.

DEPFA BANK plc

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

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

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

As of December 31, 2003, DEPFA had total consolidated assets of Euro 174.0 billion, outstanding medium and long term loans to customers of Euro 63 billion, shareholders' equity of Euro 1.4 billion and consolidated net income of Euro 384 million, determined in accordance with the United States generally accepted accounting principles (US GAAP). DEPFA maintains its records and prepares its financial statements in Euro. At December 31, 2003, the exchange rate was 1.0000 euro equals 1.2630 United States dollars. Such exchange rate fluctuates from time to time.

On March 1, 2004, DEPFA announced that it intends to sell its German subsidiary, DEPFA Deutsche Pfandbriefbank AG, which represents approximately 50% of the Group's total assets and approximately 20% of net profits, as of December 31, 2003. Deutsche Pfandbriefbank AG is primarily engaged in public finance in Germany. The transaction should permit DEPFA to de-leverage its balance sheet and further diversify its business internationally. The sale is not subject to any further approval and may be completed by the end of the third quarter. Information regarding the status of the sale of DEPFA Deutsche Pfandbriefbank AG is available on DEPFA's website at: www.depfa.com.

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

DEPFA will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: DEPFA BANK plc, New York Agency, 570 Lexington Avenue, 39th floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date. In addition, updated financial information may be found from the DEPFA website at: www.depfa.com.

SECURITY FOR THE SERIES 2004A BONDS

Pledge of Junior Lien Trust Indenture

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

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

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

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

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

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

(e) Any and all property of every kind and nature (including, without limitation, cash, obligations or securities) which may from time to time be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Junior Lien Trust Indenture by the Department or anyone on its behalf, or which pursuant to any of the provisions of the Junior Lien Trust Indenture may come into the possession or control of the Trustee as security under the Junior Lien Trust Indenture, or of a receiver lawfully appointed under the Junior Lien Trust Indenture, all of which property the Trustee is authorized to receive, hold and apply according to the terms of the Junior Lien Trust Indenture.

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

During such time as the Department is not meeting the Senior Lien Asset Test, the Department may only direct the Senior Lien Indenture Trustee (i) to transfer Surplus Revenues to the Senior Lien Mortgage Loan Fund or the Senior Lien Redemption Account; (ii) to invest the Surplus Revenues in Investment Securities (as defined in the Senior Lien Trust Indenture); or (iii) if the Department shall have on file with

the Senior Lien Indenture Trustee a Statement of Projected Revenues, projecting that Revenues (as defined in the Senior Lien Trust Indenture) to the extent deemed available or to be available to pay Department Expenses (as defined in the Junior Lien Trust Indenture) and Aggregate Debt Service will be sufficient to pay Department Expenses and Aggregate Debt Service, including Swap Agreement Periodic Payments, when due in the then current and each succeeding Bond Year, and as of the date of such Statement of Projected Revenues the Department Assets (as defined in the Senior Lien Trust Indenture) are at least equal to one hundred percent (100%) of the aggregate principal amount of Senior Lien Bonds then outstanding then Surplus Revenues may be used to pay principal, interest and redemption price on the Obligations or establish and maintain reserves or other funds and accounts as provided in the Junior Lien Trust Indenture.

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

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

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

provided, however, that no such amounts may be applied in any way which would result in less than ninety percent (90%) of all amounts received by the Department with respect to the Mortgage Loans or the Department Loans being used for the following purposes: (a) to pay the principal or Redemption Price of or interest on or purchase price or otherwise to service the Obligations; (b) to reimburse the Department for Department Expenses, or to pay for Costs of Issuance; (c) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to the Program; (d) to make, acquire or refinance Mortgage Loans, Department Loans or other loans or mortgages financing residential real

property in the State; and (e) to redeem or retire other obligations of the Department. For a description of the Junior Lien Asset Test see "THE JUNIOR LIEN TRUST INDENTURE - Expense Fund and Residual Revenues Fund."

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

The Series 2004A Bonds are limited obligations of the Department and are payable solely from the Revenues and funds pledged for the payment thereof as more fully described herein. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, is obligated to pay the principal or redemption price of, or interest on, the Series 2004A Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power.

Certain Information as to Revenues, Debt Service and Department Expenses

On the basis of the Cashflow Statement (hereinafter defined) prepared in connection with the issuance of the Series 2004A Bonds, as discussed below, the Department expects that Surplus Revenues and amounts held under the Junior Lien Trust Indenture and the earnings thereon, will be sufficient to pay the principal amount or redemption price of and interest on the outstanding Obligations and the Series 2004A Bonds when due. In arriving at the foregoing conclusions, the Department has not considered the issuance of other additional Obligations, additional Senior Lien Bonds, or the application or investment of the proceeds thereof. Since Obligations issued under the Master Indenture will rank equally and ratably with the Series 2004A Bonds with respect to the security afforded by the Master Indenture and since Senior Lien Bonds rank in a higher priority than the Series 2004A Bonds, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Obligations or additional Senior Lien Bonds.

Reserve Funds

The Junior Lien Trust Indenture establishes a Reserve Fund for the Obligations (the "Reserve Fund"). The 2004A Series Supplement establishes the Series 2004A Reserve Account within the Reserve Fund and provides for deposit into the Series 2004A Reserve Account of the Reserve Fund of amounts equal to the Series 2004A Reserve Account Requirement. Moneys in the Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 2004A Bonds or any other outstanding Obligations.

Cashflow Statement

The Department is required to deliver periodically a "Cashflow Statement" prepared or verified by a nationally recognized firm experienced in preparing mortgage revenue bond cashflows that is acceptable to the Rating Agencies comparing estimates of Revenues with scheduled debt service requirements, Trustee Fees, Rebate Analyst Fees, Department Expenses, Administrative Fees and any other expenses with respect to Outstanding Obligations. Under the terms of the Master Indenture, such Cashflow Statements must incorporate certain assumptions and Rating Agency requirements concerning Mortgage Loan, Department Loan and Senior Lien Mortgage Loan prepayments, reinvestment rates, expenses and certain other assumptions as provided in the Master Indenture. A Cashflow Statement is required to be prepared, among other things, as a condition to the issuance of the Series 2004A Bonds, the issuance of any additional Obligations, and the taking of certain other actions permitted under the Junior Lien Trust Indenture.

The Department has covenanted in the Junior Lien Trust Indenture that it will make, acquire or sell Mortgage Loans, Department Loans and Senior Lien Mortgage Loans, or purchase or redeem Obligations, including the Series 2004A Bonds, or take certain other actions permitted under the Junior Lien Trust Indenture, only if such actions are in accordance with its most recent Cashflow Statement unless otherwise permitted in the applicable Series Supplement.

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

Outstanding Obligations

In addition to the Series 2004A Bonds to be issued, Prior Bonds are the only Obligations outstanding under the Junior Lien Trust Indenture. As of December 31, 2003, \$10,000,000 in Prior Bonds were outstanding under the Junior Lien Trust Indenture.

Senior Lien Bonds

As of December 31, 2003, \$371,075,000 in Senior Lien Bonds consisting of fifteen issues of Senior Lien Bonds were outstanding under the Senior Lien Trust Indenture.

Mortgage Loans and Mortgage Certificates

As of December 31, 2003, \$46,250,268 in Mortgage Loans and \$211,781,772 in mortgage certificates were outstanding under the Senior Lien Trust Indenture and \$9,626,481 in mortgage certificates were outstanding under the Junior Lien Trust Indenture.

Reserve Fund Investments

As of December 31, 2003, the Debt Service Reserve Account Requirement for the Senior Lien Bonds was \$1,289,868 and the Reserve Account Requirement for the outstanding Obligations was \$300,000. As of such date, both requirements were satisfied. The Reserve Account Requirement for the Series 2004A Bonds is \$124,200.

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

In addition to the foregoing, certain matters relating to the financial condition of the Single Family Trust Indenture (combined for Senior Lien Bonds and the Obligations) for the fiscal years ending August 31, 2002, August 31, 2003 and December 31, 2003 are summarized in "APPENDIX F - CERTAIN COMBINED FINANCIAL INFORMATION FOR SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE." Such information has been derived from the audited financial statements of the Department for each of such fiscal years.

THE SENIOR LIEN TRUST INDENTURE

General

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

Funds and Accounts

The following funds are established under the master indenture: mortgage loan fund; revenue fund; debt service fund (and a principal account, an interest account, a debt service reserve account, a 2004 Swap Agreement Periodic Payment Account and a redemption account therein); expense fund (and a rebate account therein); and special mortgage loan fund. The funds and accounts (except for the principal account, interest account, the 2004 Swap Agreement Periodic Payment Account and redemption account of the debt service fund which are held and invested by the Senior Lien Indenture Trustee and the expense fund which is held by the Department) are held by the Senior Lien Indenture Trustee and maintained and invested by the Comptroller of Public Accounts of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company, as depository under the Senior Lien Trust Indenture.

The Thirty-Sixth Supplemental Indenture and the Thirty-Seventh Supplemental Indenture create a common account for the Series A/B Bonds within each listed fund and a common subaccount for the Series A/B Bonds within each listed account except for the special mortgage loan fund and the debt service reserve account. In addition, the Thirty-Sixth Supplemental Indenture creates a 2004 capitalized interest subaccount within the 2004 A/B account of the revenue fund. The Thirty-Seventh Supplemental Indenture creates the 2004 Swap Agreement Termination Payment Subaccount, the 2004 Swap Agreement Periodic Receipt Subaccount and the 2004 Swap Agreement Termination Receipt Subaccount within the surplus revenues account of the revenue fund. The 2004 Swap Agreement Termination Payment Subaccount and the 2004

Swap Agreement Termination Receipt Subaccount are not pledged as security for the payment of principal of or interest on any Obligations or Senior Lien Bonds. The Thirty-Sixth Supplemental Indenture also creates the policy payments account into which funds from claims on the municipal bond insurance policy with respect to the Series A/B Bonds will be deposited and which are not pledged to the payment of principal of or interest on any Senior Lien Bonds or Obligations.

Mortgage Loan Fund

Certain proceeds of the Series A/B Bonds will be transferred to the 2004 A/B mortgage loan account of the mortgage loan fund. Amounts in the mortgage loan fund will be used to pay: (i) the costs of acquiring the mortgage certificates, (ii) the costs of issuance of the Series A/B Bonds, and (iii) any other fees and expenses incurred in connection with the acquisition of the mortgage certificates which are payable by the Senior Lien Indenture Trustee on behalf of the Department pursuant to any agreement with Mortgage Lenders, and the fees and expenses of the Senior Lien Indenture Trustee.

Under certain circumstances, as required by the Senior Lien Trust Indenture, the Senior Lien Indenture Trustee, at the direction of the Department, is required to transfer amounts in the mortgage loan fund to the redemption account to pay the principal of Senior Lien Bonds to be redeemed or to be purchased. To the extent other moneys are not available in any other fund or account, amounts in the mortgage loan fund may be applied to the payment of principal or redemption price of and interest on the Senior Lien Bonds.

The Department has covenanted in the Senior Lien Trust Indenture that it will acquire, refinance or sell mortgage loans or mortgage certificates only if it has determined, on the basis of its most recent Statement of Projected revenues, and other information available to it, that such action will not adversely affect the Department's ability to pay, when due, the principal or redemption price of and interest on the Senior Lien Bonds.

Expense Fund

Amounts in the expense fund (except for amounts in the rebate account therein) may be paid out from time to time by the Department for department expenses, taxes, insurance, foreclosure fees, including appraisal and legal fees, security, repairs and other expenses incurred by the Department in connection with the protection and enforcement of its rights in any mortgage loan and the preservation of the mortgaged property securing such mortgage loans. Excess amounts in the expense fund may be transferred to the revenue fund.

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

Revenue Fund

All revenues are required to be deposited in the revenue fund promptly upon receipt by the Department. On the first day of each month, or as soon thereafter as possible, the Senior Lien Indenture Trustee is required to transfer from the revenue fund to the expense fund the amount, estimated by the Department, to be required to pay the department expenses during the next month together with the amount, if any, necessary to maintain or restore an operating reserve in the expense fund to the sum estimated in the Department's current annual budget to be required to pay two months' department expenses. The Thirty-Sixth Supplemental Indenture requires the Department to estimate periodically the amounts to be rebated to the United States as required under Section 148(f) of the Code and applicable provisions thereunder and thus include such amounts in its monthly estimate of department expenses.

On or before each interest payment date on the Senior Lien Bonds, the Senior Lien Indenture Trustee is required to transfer mortgage loan principal payments at the Department's direction to either the principal account, the mortgage loan fund, or to the redemption account; provided, however, that all amounts representing mortgage loan principal payments shall be transferred to a redemption account and applied to the redemption of the respective series of Bonds within six months after receipt. The Senior Lien Indenture Trustee also must transfer from the revenue fund the other amounts on deposit therein representing investment earnings on funds and accounts and mortgage loan interest payments to the debt service fund as follows: (i) to the Interest Account, to the extent required so that the balance in said Account equals the amount of the interest which will be due and unpaid on such interest payment date, (ii) to the principal account, to the extent required so that the balance in said account equals the amount of principal which will be due and unpaid on such interest payment date, (iii) to the debt service reserve account, to the extent required so that the balance in such Account equals the Debt Service Reserve Account Requirement, and (iv) to the 2004 Swap Agreement Periodic Payment Account to the extent required so that the balance in said account equals the Swap Agreement Periodic Payment which will be due and unpaid on such interest payment date. Any amounts remaining in the revenue fund after such payments described above are made are deemed Surplus Revenues.

Surplus Revenues (with certain exceptions) are transferred to the surplus revenues account of the revenue fund. If the Department has satisfied the requirements in clause (iii) of the second paragraph below, amounts in the surplus revenues account are transferred on or before each interest payment date or redemption date for the Series 2004A Bonds to the Trustee under the Junior Lien Trust Indenture to the extent such amounts are needed to pay amounts due on the Series 2004A Bonds, to pay fees and expenses associated with the Series 2004A Bonds and to restore reserves and other accounts for such Series 2004A Bonds.

During such time as the Department is not meeting the Asset Test described in the next succeeding paragraph, the Department may only direct the Senior Lien Indenture Trustee (i) to transfer Surplus Revenues to the mortgage loan fund or the redemption account for the Senior Lien Bonds; (ii) to invest the Surplus Revenues in Investment Securities; or (iii) if the Department shall have on file with the Trustee a Statement of Projected Revenues, projecting that revenues to the extent deemed available or to be available to pay Department Expenses and aggregate debt service on Senior Lien Bonds will be sufficient to pay such Department Expenses and aggregate debt service when due in the then current and each succeeding Bond Year, and as of the date of such Statement of Projected Revenues the Department Assets are at least equal to one hundred percent (100%) of the aggregate principal amount of Senior Lien Bonds then outstanding, then to pay principal, interest and redemption price on Junior Lien Bonds or establish and maintain reserves or other funds and accounts as provided in the Junior Lien Trust Indenture.

The Department will be deemed to have met the Asset Test if (i) the Department shall have on file with the Senior Lien Indenture Trustee a Statement of Projected Revenues giving effect to a transfer and release proposed as described in the next succeeding paragraph projecting that available revenues will be sufficient to pay department expenses with respect to Senior Lien Bonds and aggregate debt service on the Senior Lien Bonds, including Swap Agreement Periodic Payments, when due in the then-current and each succeeding Bond Year; (ii) as of the date of such Statement of Projected Revenues the Department Assets (including that portion of junior lien mortgage loans that are permitted to be included as Department Assets by each Rating Agency) are at least equal to one hundred two percent (102%) of the aggregate principal amount of Senior Lien Bonds then outstanding; and (iii) amounts then on deposit in the debt service reserve account are at least equal to the Debt Service Reserve Account Requirement and amounts in the reserve fund for the Series 2004A Bonds are equal to the reserve fund requirement therefor.

At the end of any Bond Year, if the Department meets the Asset Test, the Department may direct the Senior Lien Indenture Trustee to transfer the Surplus Revenues (in excess of those required to be maintained

under the Senior Lien Trust Indenture in order to permit the Department to continue to meet the Asset Test) to the Trustee under the Junior Lien Trust Indenture to be used to originate Mortgage Loans or to reimburse a bond insurer or credit provider for amounts provided under a bond insurance policy or other credit support, or the Department may apply such Surplus Revenues: (i) in any manner permitted during periods when the Department is not meeting the Asset Test; (ii) (A) to the redemption of Senior Lien Bonds; (B) to the payment of any Department Expenses; (C) to the establishment of reserves therefor, free and clear of the pledge and lien of the Senior Lien Trust Indenture; or (D) to the purchase of Senior Lien Bonds; and (3) any other purpose or payment authorized by the Act, free and clear of the pledge and lien of the Senior Lien Trust Indenture.

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

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

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

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

Upon any purchase or redemption, other than a sinking fund redemption, of Senior Lien Bonds of any series and maturity for which sinking fund installments have been established, there shall be credited toward each such sinking fund installment thereafter to become due a proportional amount of the total

principal amount of such Senior Lien Bonds so purchased or redeemed, or may be credited otherwise at the direction of the Department upon satisfaction of certain conditions set out in the Senior Lien Trust Indenture. The Senior Lien Indenture Trustee, at any time at the direction of the Department, is required to apply amounts available in the principal account or the redemption account to pay the principal portion of Senior Lien Bonds which the Department may purchase at a price (excluding accrued interest to the purchase date but including any brokerage or other charges), no greater than the applicable redemption price of such Senior Lien Bonds.

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

Debt Service Reserve Account

If on any interest payment date for the Senior Lien Bonds, the amount in the principal account is less than the amount required to pay the principal and redemption price of Senior Lien Bonds then payable, or the amount in the interest account shall be less than the amount required to pay interest then due on the Senior Lien Bonds, the Senior Lien Indenture Trustee is required to apply amounts from the debt service reserve account to the extent necessary to eliminate the deficiency first in the interest account and second in the principal account. Any amount on deposit in the debt service reserve account prior to the monthly allocation from the revenue fund that is in excess of the Debt Service Reserve Account Requirement will, upon the request of the Department, be transferred to the revenue fund.

Whenever the amount in the debt service reserve account, together with the amounts in the debt service fund is sufficient to fully pay all outstanding Senior Lien Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the debt service reserve account may be transferred to the debt service fund for credit to the redemption account, and the interest account, as appropriate.

Special Mortgage Loan Fund

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

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

Withdrawals from Funds to Pay Debt Service

If on any interest payment date on the Senior Lien Bonds, the amount in the interest account or the principal account shall be less than the amount required to be in such account in order to make payments then due, the Senior Lien Indenture Trustee shall transfer from the following funds and accounts in the following order of priority the amount of such deficit and apply such amount to pay aggregate debt service as necessary: (i) redemption account, (ii) mortgage loan fund, and (iii) debt service reserve account.

None of the following are deemed available under the Senior Lien Trust Indenture for the payment of debt service on Senior Lien Bonds: (i) moneys in the redemption account which are to be used to redeem Senior Lien Bonds as to which notice of redemption has been given or committed to the purchase of Senior Lien Bonds, (ii) moneys in the mortgage loan fund which are to be used to acquire or refinance mortgage loans (or mortgage certificates) with respect to which the Department has entered into commitments with borrowers or Mortgage Lenders, or (iii) mortgage loans credited to the mortgage loan fund. Prior to withdrawing any amounts from the mortgage loan fund, the Department shall file with the Senior Lien Indenture Trustee a Statement of Projected Revenues giving effect to such withdrawal, which shall project revenues sufficient to pay department expenses and debt service when due in the then-current and each succeeding Bond Year. If there is not a sufficient amount in all funds to pay all required principal, interest and redemption price on all Senior Lien Bonds, the available amounts will be applied in accordance with the provisions of the Senior Lien Trust Indenture.

Investments

Moneys held in the mortgage loan fund, the revenue fund and the debt service fund are required to be invested and reinvested by the Senior Lien Indenture Trustee or by any Depository holding all or a portion of the moneys in such funds, in accordance with instructions from the Department and moneys held in the expense fund are required to be invested and reinvested by the Department or by any Depository holding all or a portion of the moneys in such fund, in accordance with instructions from the Department, to the fullest extent practicable and if permitted by the Act, in investment securities described in the Senior Lien Trust Indenture (or certificates of deposit or time deposits) the principal of which the Department estimates will be received not later than such times as will be necessary to provide moneys when needed for payments to be made from each such fund.

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 Senior Lien Trust Indenture to be deposited therein; thereafter such earnings and profits, net of any losses (except that which represents a return of accrued interest paid in connection with the purchase by the Department, the Senior Lien Indenture Trustee or any Depository of any investment or as otherwise provided in a supplement to the Senior Lien Trust Indenture), are required to be transferred to the revenue fund. In computing the amount in any fund or account created under the provisions of the Senior Lien Trust Indenture for any purpose provided in the Senior Lien Trust Indenture, obligations purchased as an investment of moneys therein must be valued at their amortized value, computed as prescribed in the Senior Lien Trust Indenture.

Events of Default

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

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

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

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

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

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

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

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

(d) to the payment of the amounts required for reasonable and necessary Department expenses allocable to Senior Lien Bonds, the Senior Lien Trust Indenture or the mortgage loan programs thereunder.

Trustee

J.P. Morgan Trust Company, National Association, is currently the Senior Lien Indenture Trustee for all series of Senior Lien Bonds issued under the Senior Lien Trust Indenture.

Depositories

The Department may appoint one or more depositories to hold all or a designated portion of the moneys and investments subject to the lien and pledge of the Senior Lien Trust Indenture (other than moneys and securities required to be held in the interest fund, the principal fund and the special redemption fund). Any depository appointed by the Department must be: (i) the Comptroller of Public Accounts, as successor

to the State Treasurer of the State of Texas, acting by and through the Texas Treasury Safekeeping Trust Company; or (ii) a bank, trust company, a national banking association, a savings and loan association, savings bank or other banking institution or association selected by the Department. See "THE TEXAS TREASURY SAFEKEEPING COMPANY."

Supplemental Senior Lien 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 Senior Lien Trust Indenture of the Department may be adopted, which, upon the filing with the Senior Lien Trust Indenture Trustee of a copy thereof certified by an authorized officer of the Department, shall be fully effective in accordance with its terms: (i) to authorize Senior Lien Bonds of a series and, in connection therewith, to specify and determine matters and things relative to such Senior Lien Bonds which are not contrary to or inconsistent with the Senior Lien Trust Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Senior Lien Bonds; (ii) to close the Senior Lien Trust Indenture or any supplemental indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Senior Lien Trust Indenture or any supplemental indenture on, the delivery of Senior Lien Bonds or the issuance of other evidences of indebtedness; (iii) to add to the covenants and agreements of the Department in the Senior Lien Trust Indenture or any supplemental indenture, other covenants and agreements to be observed by the Department which are not contrary to or inconsistent with the Senior Lien Trust Indenture or the applicable supplemental indentures as theretofore in effect; (iv) to add to the limitations and restrictions in the Senior Lien Trust Indenture or any supplemental indenture other limitations and restrictions to be observed by the Department which are not contrary to or inconsistent with the Senior Lien Trust Indenture or the applicable supplemental indenture as theretofore in effect; (v) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Senior Lien Trust Indenture or any supplemental indenture, of the trust estate under the Senior Lien Trust Indenture or of any other moneys, securities or funds; (vi) to modify any of the provisions of the Senior Lien Trust Indenture or any supplemental indenture in any respect whatever, provided that (a) such modification shall be, and be expressed to be, effective only after all Senior Lien Bonds of any series outstanding at the date of the adoption of such Senior Lien Trust Indenture or supplemental indenture shall cease to be outstanding; and (b) such supplemental indenture shall be specifically referred to in the text of all Senior Lien Bonds of any series delivered after the date of the adoption of such supplemental indenture and of Senior Lien Bonds issued in exchange therefor or in place thereof; (vii) to modify, amend or supplement the Senior Lien Trust Indenture or any supplemental indenture in such manner as to permit, if presented, the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or under any state Blue Sky Law; or (viii) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Senior Lien Trust Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Department contained in the Senior Lien Trust Indenture.

Amendment of Indenture with Consent of Bondholders

Any modification or amendment of the Senior Lien Trust Indenture and of the rights and obligations of the Department and of the owners of the Senior Lien Bonds and coupons thereunder, in any particular, may be made by a Supplemental Senior Lien Trust Indenture, with the written consent given as provided in the Senior Lien Trust Indenture of the owners of at least 2/3rds in principal amount of the Senior Lien Bonds outstanding at the time such consent is given, and (ii) in case less than all of the several series of Senior Lien Bonds then outstanding are affected by the modification or amendment, of the owners of at least 2/3rds in principal amount of the Senior Lien Bonds of each series so affected and outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any sinking fund installment,

of the owners of at least 2/3rds in principal amount of the Senior Lien Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Senior Lien Bonds of any specified like series and maturity remain outstanding, the consent of the owners of such Senior Lien Bonds shall not be required and such Senior Lien Bonds shall not be deemed to be outstanding for the purpose of any calculation of outstanding Senior Lien Bonds under these provisions. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Senior Lien Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the owner of such Senior Lien Bond, or shall reduce the percentages or otherwise affect the classes of Senior Lien Bonds of which the consent of the owners is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Senior Lien Indenture Trustee, paying agent or other fiduciary without its written assent thereto. A series of Senior Lien Bonds shall be deemed to be affected by a modification or amendment of the Senior Lien Trust Indenture if the same adversely affects or diminishes the rights of the owners of Senior Lien Bonds of such series. The Senior Lien Indenture Trustee may in its discretion determine whether or not, in accordance with the foregoing powers of amendment, Senior Lien Bonds of any particular series or maturity would be affected by any modification or amendment of the Senior Lien Trust Indenture and any such determination shall be binding and conclusive on the Department and all owners of Senior Lien Bonds.

INVESTMENT OF FUNDS

Moneys, if any, in the Acquisition Fund, the Reserve Fund, the Revenue Fund, the Residual Revenues Fund, and the Rebate Fund will be invested and reinvested 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 and reinvested by the Trustee, upon the direction of the Department, in Investment Securities. Moneys in the Cost of Issuance Fund and the Expense Fund will be held by the Department and invested, if at all, in accordance with the Department's investment policy. Moneys held or invested in all Funds and Accounts (except for the Rebate Fund) under the Junior Lien Trust Indenture are for the equal and ratable benefit of all owners of the Obligations.

For information concerning the investment of Funds relating to the Series 2004A Bonds, the Outstanding Obligations and the Senior Lien Bonds, see "APPENDIX E - INVESTMENT OF FUNDS RELATING TO OUTSTANDING OBLIGATIONS AND SENIOR LIEN BONDS."

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

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

ADDITIONAL OBLIGATIONS

Various series of Obligations may be issued as provided in the Master Indenture on a parity with the Series 2004A Bonds, secured by a pledge of and lien on the Trust Estate. In addition, the Department may issue Subordinated Obligations which are subordinated in terms of repayment of the Obligations. As a condition to the issuance of additional Obligations, including Subordinated Obligations, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the Series of Obligations will be legally issued in accordance with the Master Indenture and the Act. The Department must also deliver a Cashflow Statement which gives effect to the issuance of such additional Obligations as described above under the subheading "Cashflow Statement." The Department has reserved the right to adopt one or more additional general bond indentures and to issue other obligations payable from sources other than the Trust Estate. In addition, pursuant to the Senior Lien Trust Indenture, the Department has reserved the right to issue additional Senior Lien Bonds upon compliance with certain requirements as set forth therein.

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 61

The Department has established a Single Family Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). The component of the program relating to the Series A/B Bonds will be designated as the Department's Bond Program No. 61 ("Program 61"). In connection with the issuance of the Series A/B Bonds and the Prior Bonds and any additional Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or participations therein) originated by commercial banks, savings and loan associations, mortgage companies, non-profit corporations, and other qualified financial institutions (the "Mortgage Lenders"). As a result of the issuance of the Series A/B Bonds, the Trustee on behalf of the Department has agreed to purchase 2004 Mortgage Certificates.

Mortgage loans evidenced by the 2004 Mortgage Certificates will bear interest at the rates established upon the issuance of the Series A/B Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Senior Lien Trust Indenture. The purchase price for the 2004 Mortgage Certificates will be 103.025% of par (plus accrued interest) for Ginnie Mae Certificates (subject to adjustment upon written notice from the Department), 103.525% of par (plus accrued interest) for Freddie Mac Certificates and 103.525% of par (plus accrued interest) for Fannie Mae Certificates with respect to Assisted Mortgage Loans, and will be 99.025% of par (plus accrued interest) for Ginnie Mae Certificates (subject to adjustment upon written notice from the Department), 99.525% of par (plus accrued interest) for Freddie Mac Certificates and 99.525% of par (plus accrued interest) for Fannie Mae Certificates with respect to Non-Assisted Mortgage Loans. The Department will purchase the 2004 Mortgage Certificates during a Certificate Purchase Period which will expire on November 1, 2005, but which may be shortened or extended, upon compliance with the terms of the Thirty-Sixth Supplemental Indenture.

General

The guidelines adopted by the Department from time to time in connection with the Program establish the eligibility of lenders to participate in the Program, time limitations with respect to commitments for and originations of mortgage loans, the types of mortgage loans eligible for purchase by the Servicer, the eligibility of mortgagors, the requirements for dwellings which secure mortgage loan, the fees which a mortgage lender may charge to originate a mortgage loan, the fees which a lending institution may charge for servicing a mortgage loan,

as well as other aspects of the Program. In connection with each phase of the Program, the Department executed or will execute origination, sale and servicing agreements or mortgage origination agreements and program supplements (collectively, the "Agreement") with the respective mortgage lenders. The Agreement obligated or will obligate the mortgage lenders to use their best efforts to originate and sell to the Department mortgage loans in conformity with the guidelines. Each mortgage loan was or will be reviewed prior to acquisition by the Compliance Agent designated by the Department for compliance with applicable provisions of the Program as set forth in the guidelines and with applicable provisions of federal income tax laws. The procedures set forth in the Agreement are established by the Department after consideration of standards and requirements customary in the secondary mortgage market. The Department anticipates that it may revise its procedures from time to time to conform with changes in the procedures followed by Fannie Mae, RHS, Ginnie Mae, VA or other major secondary mortgage market institutions.

Mortgage Lender Reservations - First- Come, First-Served

No funds made available through Program 61 will be allocated to any specific mortgage lenders. Rather, all of such funds will be made available to mortgage lenders on a controlled first-come, first-served basis.

Mortgage Assistance Program ("MAP")

In connection with the use of Program 61 funds to finance mortgage loans to Eligible Borrowers, the Department may make available down payment and closing costs assistance on a first-come, first-served basis, during the first year, to very low income (sixty percent (60%) of applicable median family income - see APPENDIX G - APPLICABLE MEDIAN FAMILY INCOMES AND ACQUISITION COST LIMITATIONS) Eligible Borrowers wherever located and after such one-year period, to Eligible Borrowers whose family incomes do not exceed eighty percent (80%) of applicable median family income. In addition, down payment and closing cost assistance will be available, during the first year, to Eligible Borrowers purchasing residences in targeted areas. The maximum amount of down payment and closing costs assistance available will be four percent (4%) of the amount of the mortgage loan and a lien subordinate to the purchase money lien will be required. The Department estimates that sufficient down payment and closing costs assistance funds will be available for approximately \$100,000,000 of the total Program allocation that is set aside for very low income borrowers and loans in targeted areas. MAP will require a zero percent (0%), 30-year, subordinate lien mortgage. MAP will be repaid in full at maturity or upon an earlier resale of the property, refinance of the first lien, or repayment of the first lien, if any of these occurs before the end of the 30-year term.

Grant Assistance Program ("GAP")

In connection with the use of Program 61 funds to finance mortgage loans to Eligible Borrowers, the Department may make available down payment and closing costs assistance on a first-come, first-served basis, to very low income (sixty percent (60%) of AMFI - see APPENDIX G -- APPLICABLE MEDIAN FAMILY INCOMES AND ACQUISITION COST LIMITATIONS) borrowers wherever located. The maximum amount of GAP down payment and closing costs assistance available will be four percent (4%) of the amount of the mortgage loan and no second lien will be required.

Down Payment Assistance Program ("DPAP")

In connection with the use of Program 61 funds to finance mortgage loans to Eligible Borrowers, the Department may make available downpayment and closing cost assistance to Eligible Borrowers on a first-come, first-served basis through its Downpayment Assistance Program. Under DPAP, down payment and closing costs assistance is required to be applied first to payment of closing costs and then to the Eligible Borrower's down payment with respect to the mortgage loan. If made available, the Department expects to restrict downpayment

assistance provided by DPAP to Eligible Borrowers of very low income (not exceeding 60% of Applicable Median Family Income). The amount of DPAP available to Eligible Borrowers will equal \$5,000, \$7,500 or \$10,000 depending upon the geographic location of the Eligible Borrowers' residences. DPAP will require a 0%, deferred amortization, second lien mortgage.

Targeted Area Reservation

For the first twelve months of Program 61 (commencing on the date proceeds are first made available to finance mortgage loans, which is anticipated to be May 3, 2004), approximately \$20,234,200 (75% for Assisted Mortgage Loans and the remainder for Non-Assisted Mortgage Loans) of the lendable funds made available through the issuance of the Series A/B Bonds will be required to be reserved for mortgage loans made in certain targeted areas. See "TAX MATTERS -- Federal Income Tax Requirements -- Targeted Area Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a mortgage loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Senior Lien Indenture Trustee may use any remaining reserved funds to purchase 2004 Mortgage Certificates representing any mortgage loans made to Eligible Borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than two percent (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 eleven percent (11%) to twenty-two percent (22 %) of amounts available have been used to originate mortgage loans in such targeted areas.

Very Low Income Reservation

For the first one year period of Program 61 (or such longer period as determined by the Department), the Department is requiring that \$100,000,000 of the funds made available through the issuance of the Series A/B Bonds, will be set aside for mortgage loans for individuals and families of very low income (not exceeding sixty percent (60%) of applicable median family income) and after the first year, the funds will be set aside for mortgage loans for individuals and families whose incomes do not exceed eighty percent (80%) of applicable median family income. See "APPENDIX H - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

Low and Moderate Income Reservation

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

Eligible Borrowers

Each mortgage loan is required to be made to a person whose family income does not exceed the income limits set forth above under "Targeted Area Reservation," "Very Low Income Reservation" and "Low and Moderate Income Reservation" and any other limits established by the Department from time to time. In addition, to be eligible for a mortgage loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such mortgage loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans, certain exception loans hereinafter described, and certain homes falling into the Contract for Deed Exception, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the mortgage; and (iii) who has not had an existing

mortgage on the residence (other than a mortgage falling into the Contract for Deed Exception) to be financed with such mortgage loan at any time prior to the execution of the mortgage, other than certain permitted temporary financing mortgages. The Department, subject to the requirements of applicable provisions of federal income tax law and applicable regulations, may approve a limited number of exception loans that do not satisfy the requirement described in clause (ii) in the immediately preceding sentence. See "APPENDIX I - 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 I - APPLICABLE MEDIAN FAMILY INCOME AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Mortgage Loans

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

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

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

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

(d) Each mortgage loan must be covered by a valid and subsisting title insurance policy, the benefits of which run to the Department, in an amount at least equal to the outstanding principal balance of the mortgage loan and the improvements on the real property securing each mortgage loan must be fully covered by a hazard insurance policy and a flood insurance policy, if in the flood plain, in such amount as the Department deems advisable;

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

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

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

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

Compliance with Tax Law and Program Guidelines

Each mortgage lender with respect to the mortgage loans and Program 61 will be required to follow certain procedures in the origination of mortgage loans to insure compliance with the mortgage eligibility requirements and other requirements applicable to the mortgage loans. These procedures will include, but may not be limited to, the following: (i) obtaining affidavits of the borrower and seller and certificates of the real estate agent, if any, providing and certifying certain information regarding borrower income, home acquisition cost, and other loan information; (ii) reviewing the contents of the affidavits and certificates with the persons executing them prior to the execution thereof; (iii) except in the case of certain targeted area loans and certain other exceptions, obtaining signed or certified copies of the borrower's federal income tax returns for the preceding three years to verify that the borrower did not claim deductions for taxes or interest on indebtedness with respect to real property constituting his or her principal residence or a borrower's affidavit that he or she was not required to file such a return during one or more of the preceding three years; (iv) performing such additional investigations as may be appropriate under the circumstances to verify that the requirements of the Program are satisfied as of the date of the execution of the mortgage; (v) reviewing the draft settlement statement to assure that all fees and charges and settlement and financing costs comply with the applicable requirements; (vi) preparing, executing and delivering a certificate relating to compliance with the requirements set forth immediately above; and (vii) carrying out such additional verification procedures as may be reasonably requested by the Department or the Senior Lien Indenture 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 repaying the non-qualifying mortgage loan in full or by replacing the non-qualifying mortgage loan with a mortgage loan which meets the applicable requirements.

ASSUMPTIONS

Assumptions

The ability of the Department to pay the principal of and interest on the Series 2004A Bonds depends upon the receipt of sufficient and timely payments of principal of and interest on the Senior Lien Mortgage Loans,

the Mortgage Loans and Department Loans and the investment or reinvestment of moneys held under the Junior Lien Trust Indenture and the Senior Lien Trust Indenture. Timely payment of principal of and interest on the Series 2004A Bonds is anticipated to occur based on, among other things, the following assumptions:

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

(b) the Department will utilize a portion of the available Surplus Revenues to redeem the highest coupon Senior Lien Bonds and Series 2004A Bonds available to be redeemed; and

(c) all Funds held pursuant to the Junior Lien Trust Indenture and Senior Lien Trust Indenture not otherwise invested in Investment Securities are assumed to earn interest at a rate of .75% per annum until March 1, 2006, and 1.00% per annum thereafter.

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

Termination of Mortgage Loans

Mortgage Loans may be terminated prior to final maturity as a result of Mortgage Loan principal payment, default, sale, condemnation, casualty loss or noncompliance with the Program. All Mortgage Loan principal payments in full or other payments in respect of early termination will be deposited in the Special Redemption Fund and may be used to redeem Series 2004A Bonds at par prior to their scheduled maturity.

MORTGAGE LOAN PRINCIPAL PAYMENTS MADE WITH RESPECT TO THE SENIOR LIEN MORTGAGE LOANS, MORTGAGE LOANS AND DEPARTMENT LOANS, TOGETHER WITH SURPLUS REVENUES AND OTHER AMOUNTS, WILL RESULT IN THE REDEMPTION OF SERIES 2004A BONDS AT PAR PRIOR TO FINAL MATURITY. IT IS PROBABLE THAT A SUBSTANTIAL AMOUNT, IF NOT ALL, OF THE SERIES 2004A BONDS WILL BE REDEEMED WITHOUT PREMIUM EARLIER THAN THEIR STATED MATURITIES. SEE "SERIES 2004A BONDS - REDEMPTION PROVISIONS."

Availability of Remedies

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

THE JUNIOR LIEN TRUST INDENTURE

General

The Junior Lien Trust Indenture, which includes the Master Indenture and the 2004A Series Supplement, contains various covenants and security provisions, certain of which are summarized below. In addition, the Junior Lien Trust Indenture contains requirements for the purchase of Mortgage Loans and Department Loans and certain covenants with respect to applicable provisions of federal income tax law. Reference should be made to the Junior Lien Trust Indenture, a copy of which may be obtained from the Department, for a full and complete statement of its provisions.

Funds and Accounts

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

The Series Supplements create within each Fund an account relating to each series of the Obligations, including the Series 2004A Bonds, as well as establishing a Rebate Fund for the Prior Bonds. The accounts so created do not grant a priority of one Series of Obligations over that of any other Series of Obligations, but are for accounting purposes only.

Acquisition Fund

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

Cost of Issuance Fund

Amounts credited to the Cost of Issuance Fund may be applied to pay Costs of Issuance. If any amounts remain on deposit in the Cost of Issuance Fund 180 days after the date of issue of the Series 2004A Bonds, such amounts shall be paid to the Department to be used for any lawful purpose.

Revenue Fund

All Revenues are required to be deposited into the Revenue Fund promptly upon receipt by the Department. In order for funds to be received as Revenues under the Junior Lien Trust Indenture, they must first be determined to be Surplus Revenues under the Senior Lien Trust Indenture. Under the terms of the Senior Lien Trust Indenture, Surplus Revenues must be transferred to the Revenue Fund of the Junior Lien Trust Indenture to the extent that payments have been received on any Mortgage Loans, to the extent of 47.884% of the principal and interest payments received on the Series 1983A Mortgage Loans, to the extent of amounts necessary for the payment of any scheduled debt service due on the Obligations, and to the extent of amounts necessary to replenish

the Reserve Fund. The Series Supplements applicable to the Series 1994A Bonds provide that if, on any rebate computation date, the Department determines that amounts must be set aside in the account of the Rebate Fund applicable to the Series 1994A Bonds, then the Department shall direct the Trustee to transfer such amount from the account of the Revenue Fund relating to the Series 1994A Bonds to the Rebate Fund.

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

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

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

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

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

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

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

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

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

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

Pursuant to the 2004A Series Supplement, the Trustee is required to transfer to the Series 2004A Special Redemption Account amounts representing Surplus Revenues which may be released under the Senior Lien Trust Indenture. To the extent moneys have been on deposit in the Revenue Fund for a period of six months or more, unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, the Trustee is required to transfer such amounts to the related Account in the Residual Revenues Fund.

Interest Fund and Principal Fund

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

Special Redemption Fund

Amounts in the Special Redemption Fund are required to be applied by the Trustee to pay the redemption price of the Obligations subject to redemption (other than by scheduled mandatory redemption), as determined in a Series Supplement and to the extent applicable, in a Letter of Instructions accompanied by a Cashflow Certificate or, at the direction of the Department in a Letter of Instructions accompanied by a Cashflow Certificate, may be transferred to the Revenue Fund if notice of redemption has not been given or such amounts have not been committed to the purchase of Obligations; provided, however, that, with respect to the Series 2004A Bonds, the amounts on deposit in the series account within the Special Redemption Fund are required to be applied to redeem the Series 2004A Bonds on each March 1 or September 1, unless the Trustee is given instructions otherwise by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate. See "THE SERIES 2004A BONDS -- Redemption Provisions."

The Trustee, at any time at the direction of the Department, is required to apply amounts available in the Principal Fund or the Special Redemption Fund to pay the purchase price of the Series 2004A Bonds which the Department may purchase at a price (excluding accrued interest but including any brokerage or other charges), not exceeding the applicable redemption price of such Obligations.

Expense Fund and Residual Revenues Fund

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

During such time as the Department is not meeting the Junior Lien Asset Test, amounts in the Residual Revenues Fund are required to be retained in the Residual Revenues Fund or transferred to the Acquisition Fund or the Special Redemption Fund, as directed by a Letter of Instructions from the Department accompanied by a Cashflow Certificate or, in the absence of such instructions, as may be required by the applicable Series

Supplements. Pursuant to the 2004A Series Supplement on each March 1 and September 1, amounts in the Series 2004A Residual Revenues Account are required to be transferred to the Series 2004A Special Redemption Account to be applied to the redemption of Series 2004A Bonds from (i) excess Revenues and (ii) amounts representing principal payments on the Senior Lien Mortgage Loans. See "THE SERIES 2004A BONDS - Redemption Provisions."

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

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

Reserve Fund

On the Issuance Date, the Trustee is required to deposit into the Series 2004A Reserve Account, the Series 2004A Reserve Account Requirement. Thereafter, on each March 1 and September 1, the Trustee is required to transfer any amounts required pursuant to the Junior Lien Trust Indenture to restore the amount on deposit in the Series 2004A Reserve Account to the Series 2004A Reserve Account Requirement.

Moneys on deposit in the Series 2004A Reserve Account will be applied to pay the Principal Amount or Redemption Price of and interest on the Series 2004A Bonds when due, if the money in the Series 2004A Principal Account or the Series 2004A Interest Account, as applicable, are insufficient for such purpose.

On each March 1 and September 1, any moneys in the Series 2004A Reserve Account in excess of the Series 2004A Reserve Account Requirement after making the required payments of principal of and interest on the Series 2004A Bonds shall be transferred to the related Account in the Revenue Fund.

Withdrawals from Funds to Pay Debt Service

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

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

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

Investments

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

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

Other Department Covenants

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

including the following statements in reasonable detail: a statement of financial position for the Obligations as of the end of such Obligation Year; and a statement of Revenues, Department Expenses and any other expenses for such Obligation Year.

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

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

Events of Default

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

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

- (a) to pay the reasonable and proper charges, expenses and liabilities of the Trustee;
- (b) to pay the interest and principal then due on the Obligations, as follows:
 - (i) unless the principal of all the Obligations has become or has been declared due and payable, to the payment to the persons entitled thereto of: first, all installments of interest then due, in order of maturity, and, if the amount available is not sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, without any discrimination or preference; and second, the unpaid principal or redemption price of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all the Obligations due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, without any discrimination or preference; and
 - (ii) if the principal of all the Obligations has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest or of any Obligation over any other Obligation ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference;

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

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

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

Trustee

J.P. Morgan Trust Company, National Association, Fort Worth, Texas, ("J.P. Morgan") a national banking association organized and operating under the laws of the United States and having a corporate trust office located in Fort Worth, Texas, has been appointed the Trustee for the Series 2004A Bonds issued under the Master Indenture. J.P. Morgan also serves as Trustee for the Senior Lien Bonds issued under the Senior Lien Trust Indenture.

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

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

Depositories

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

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

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

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

Supplemental Indentures without Consent of Bondholders

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

Exchange Commission, the Municipal Securities Rulemaking Board or other appropriate organization or entity relating to or dealing secondary market disclosure with respect to the Obligations or (xvii) to provide for any necessary provisions as a result of the discharge of the Senior Lien Trust Indenture.

Amendment of Junior Lien Trust Indenture with Consent of Bondholders

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

Defeasance

If the Department shall pay irrevocably or cause to be paid irrevocably, or there shall otherwise be paid, to the owners of all Obligations the principal amount or Redemption Price thereof and the interest due or to become due thereon, at the times and in the manner stipulated therein and in the Junior Lien Trust Indenture, and to the Trustee, the Paying Agent, any Bond Depository and the Depository all of their respective fees and expenses due, and all Obligations theretofore authenticated and delivered have been delivered to the Trustee for cancellation, all amounts due and owing due in relation to the Obligations or the Bond Insurance or Credit Support to each relevant Bond Insurer and Credit Provider, and the Trustee and each relevant Bond Insurer and Credit Provider shall have received an opinion (in form and substance satisfactory to the related Bond Insurer and Credit Provider) of counsel experienced in bankruptcy matters and satisfactory to the Trustee and each relevant Bond Insurer and Credit Provider to the effect that the application of such amounts to the redemption or purchase of the Obligations would not constitute an avoidable preference under applicable provisions of the bankruptcy laws of the United States, then the pledge of the trust estate under the Junior Lien Trust Indenture and all covenants, agreements and other obligations of the Department to the Trustee and the owners of Obligations, shall thereupon cease, terminate and become void and be discharged and satisfied. When the lien, benefit or security created over the trust estate has been discharged and satisfied, then the pledge of the trust estate under the Indenture and all covenants, agreements and other obligations of the Department to the Trustee and the owners of any Obligations shall thereupon cease, terminate and become void and be discharged and satisfied.

Obligations or interest installments for the payment or redemption of which moneys shall have been set aside by the Trustee or any paying agent at the maturity or redemption date thereof will be deemed to have been paid within the meaning of the Junior Lien Trust Indenture. In addition, all Outstanding Obligations of any Series will be deemed to have been paid within the meaning of the Junior Lien Trust Indenture if: (i) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Department has given to the Trustee irrevocable instructions to give notice of redemption of such Obligations on said date together with a Cashflow Statement; (ii) there has been deposited with the Trustee or paying agent either moneys in an amount which are sufficient, or Government Obligations not subject to redemption prior to the maturity thereof, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or any paying agent at the same time, are sufficient, to pay when due the principal or Redemption Price and interest due and to become due on said Obligations on and prior to the redemption date or maturity date thereof, as the case may be; (iii) in the event said Obligations are not to be redeemed within the next succeeding 60 days, the Department has given the Trustee and each Bond Insurer and Credit Provider irrevocable instructions to give a notice, as soon as practicable by first-class mail, postage prepaid, to the owners of such Obligations that the deposit required by (ii) above has been made with the Trustee or a paying agent and that said Obligations are deemed to have been paid in accordance with the Junior Lien Trust Indenture and stating such maturity or redemption date upon which moneys are to be made available for the payment of the principal or Redemption Price, if applicable, on said Obligations; (iv) the Trustee and each Bond Insurer and Credit Provider shall have received an opinion (in form and substance satisfactory to the Trustee and each Bond Insurer and Credit Provider, if any) of counsel experienced in bankruptcy matters and satisfactory to the Trustee and each Bond Insurer and Credit Provider to the effect that the application of such amounts to the redemption or purchase of the Obligations would not constitute an avoidable preference under applicable provisions of the bankruptcy laws of the United States; (v) there shall have been deposited with the Trustee or any Paying Agent moneys sufficient to pay all fees and expenses of the Trustee, the Paying Agent, any Bond Depository and the Depository then due and owing and to pay their respective fees and expenses to accrue prior to the payment in full of the principal amount or Redemption Price of and interest due and to become due on the Obligations and any other amounts due to any such person under the Junior Lien Trust Indenture; and (vi) to the extent applicable, the Department shall have provided the Trustee with a Counsel's Opinion to the effect that the deposit described in this section will not cause interest on the Obligations to be included in the gross income of the owners thereof for federal income tax purposes. In addition, the Trustee must have received opinions of counsel to the effect that such defeasance will not constitute an avoidable preference under the applicable provisions of the bankruptcy laws of the United States and that the deposit will not cause interest on any tax-exempt Obligation to become includable in gross income of the holders thereof for federal income tax purposes.

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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

The Department has entered into a Depository Agreement relating to the Obligations (the "Depository Agreement"), by and among the Department, the Trustee and the Comptroller, acting by and through the Texas Treasury Safekeeping Trust Company, a special-purpose trust company organized under the laws of the State of Texas (the "Trust Company"). Pursuant to the Depository Agreement, the Trust Company will hold all moneys and securities required to be credited to all Funds (other than the Interest Fund, the Principal Fund and the Special

Redemption Fund). All money and securities required by the Junior Lien Trust Indenture to be credited to such Funds are required to be remitted to the Trust Company from time to time by the Department and the Trustee. The Trust Company is required to remit amounts from the appropriate accounts held by it to the Trustee at such times as are necessary to pay the principal or redemption price of and interest on the Obligations when due. Moneys held in the accounts held by the Trust Company are required to be invested by the Trust Company pursuant to instruction from the Department as described herein under "THE JUNIOR LIEN TRUST INDENTURE -- Investments." The Trust Company is required to hold all moneys and securities delivered to it under the Depository Agreement in trust for the benefit of the Department, the Trustee and the owners of the Obligations.

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

SERIES 2004A BONDS -- TAX MATTERS

The following discussion describes the principal United States federal tax treatment of United States persons that are Beneficial Owners of the Series 2004A Bonds. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), published revenue rulings, judicial decisions and existing and proposed Treasury regulations, changes to any of which subsequent to the date of this Official Statement may affect the tax consequences described herein.

This summary discusses only Series 2004A Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to a Beneficial Owner in light of its particular circumstances or to Beneficial Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Beneficial Owners whose functional currency (as defined in section 985 of the Code) is not the United States dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2004A Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Series 2004A Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2004A Bonds.

For purposes of this discussion, a "United States person" means an individual who, for United States federal income tax purposes, is a citizen or resident of the United States, or a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is subject to United States federal income taxation regardless of its source of income. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2004A Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from United States sources as if they were citizens or residents.

General

Income derived from a Series 2004A Bond by a Beneficial Owner is subject to United States federal income taxation. In addition, a Series 2004A Bond held by an individual who, at the time of death, is a United States person is subject to United States federal estate taxation.

Payments of Interest

Stated interest paid on a Series 2004A Bond will generally be taxable to a Beneficial Owner as ordinary interest income at the time it accrues or is received in accordance with the Beneficial Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of Series 2004A Bonds having original issue discount, acquisition premium, market discount or amortizable premium are described below.

Amortizable Premium

A Beneficial Owner that purchases a Series 2004A Bond for any amount in excess of its principal amount will be treated as having premium with respect to such Bond in the amount of such excess. If a Beneficial Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Beneficial Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2004A Bond's yield to maturity. If a Beneficial Owner makes the election under section 171(c)(2) of the Code, the election also shall apply to all taxable bonds held by the Beneficial Owner at the beginning of the first taxable year to which the election applies and to all such taxable bonds thereafter acquired by such Beneficial Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171(c)(2) of the Code is not made, such Beneficial Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale of other disposition or retirement of the Series 2004A Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Beneficial Owner. Accordingly, each Beneficial Owner of a Series 2004A Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, a Beneficial Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2004A Bond (*i.e.*, the excess of all remaining payments to be received on the Series 2004A Bond over the amount paid for the Series 2004A Bond by such Beneficial Owner) based on the compounding of interest at a constant rate. Such an election for a Series 2004A Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Beneficial Owner's debt instruments with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange or other disposition of a Series 2004A Bond, or upon the retirement of a Series 2004A Bond (including by redemption), a Beneficial Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Beneficial Owner's basis in the Series 2004A Bond. A Beneficial Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2004A Bond will be the cost of such Series 2004A Bond to such Beneficial Owner decreased by the amount of any payments under the Series 2004A Bond that are part of its stated redemption price at maturity and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be

capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2004A Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Department is required to report to the IRS payments of interest on Series 2004A Bonds held of record by United States persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a Series 2004A Bond for federal income tax reporting purposes.

Interest paid to a Beneficial Owner of a Series 2004A Bond ordinarily will not be subject to withholding of federal income tax if such Beneficial Owner is a United States person. Backup withholding of federal income tax (currently at a rate of 30 percent for years 2002 and 2003) may apply, however, to payments made in respect of the Series 2004A Bonds, as well as payments of proceeds from the sale of Series 2004A Bonds, to registered holders or Beneficial Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Beneficial Owner of a Series 2004A Bond (who is not an exempt recipient) (i) fails to furnish to the Department such Beneficial Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Department an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Department or such Beneficial Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Department is correct and that such Beneficial Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

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

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE SERIES 2004A BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT UNITED STATES PERSONS.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of April 1, 2004 (the "Disclosure Agreement") between the Trustee and the Department, the Department has made the following agreement for the benefit of the holders and beneficial owners of the Series 2004A Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2004A 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 2004A Bonds had such Eligible Borrower been known at the time of the offering of the Series 2004A 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, 2003 and 2002" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), "APPENDIX C - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES," and "APPENDIX F - CERTAIN COMBINED FINANCIAL INFORMATION RELATING TO SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 2004. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

The Department's current Fiscal Year will end on August 31, 2004. Accordingly, it is required to provide updated information by the last day of February in the year 2005 and in each year thereafter, unless the Department changes its Fiscal Year. If the Department changes its Fiscal Year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Department will provide timely notices of certain events to certain information vendors. The Department will provide notice of any of the following events with respect to the Series 2004A Bonds, if such event is material to a decision to purchase or sell Series 2004A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status, if applicable, of the Series 2004A 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 2004A Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Department will provide each

notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Department has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to owners of Series 2004A Bonds only if the owners comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2004A 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 2004A 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 2004A Bonds in the primary offering of the Series 2004A 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 2004A Bonds consent to such amendment or (b) a person that is unaffiliated with the Department (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the owners and beneficial owners of the Series 2004A 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 2004A Bonds in the primary offering of such Series 2004A Bonds.

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

Duties, Immunities and Liabilities of Trustee

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

Compliance with Prior Continuing Disclosure Agreements

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

RATINGS

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service Inc. ("Moody's") have assigned ratings on the Series 2004A Bonds of "A-1+/AAA" and "VMIG 1/Aaa" respectively. The ratings of S&P and Moody's are each based upon the issuance by Financial Security Assurance of its municipal bond insurance policy and delivery by the Bank of the Liquidity Facility. The ratings on the Series 2004A Bonds, unenhanced by Financial Security Assurance's municipal bond insurance policy are "A-1/A+" and "VMIG 1/Aa2" from S&P and Moody's, respectively. No application for a rating was made to any other rating agency. The Outstanding Bonds which are not insured by a municipal bond insurance policy are presently rated "Aa2" by Moody's and "A+" by S&P.

An explanation of the significance of such ratings may be obtained from the companies furnishing such ratings. The ratings are not a recommendation to buy, sell or hold any Series 2004A Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of such ratings. There is no assurance that any rating assigned to the Series 2004A Bonds will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P or Moody's, if in the judgment of S&P or Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2004A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., Certified Public Accountants, an independent firm of certified public accountants, will verify from the information provided to them, the mathematical accuracy as of the date of the Issuance Date of the Bonds of the computations relating to the sufficiency of projected cashflow receipts and disbursements on the Senior Lien Mortgage Loans, Mortgage Loans and Department Loans and other funds pledged under the Junior Lien Trust Indenture to pay the principal of and interest on the Series 2004A Bonds. Such verification is not, and should not be construed as, a guarantee that there will in fact be sufficient monies available under the Junior Lien Trust Indenture to pay the principal of and interest on the Series 2004A Bonds. Causey Demgen & Moore, Inc. will express no opinion on the assumptions or projections provided to them.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund for the fiscal years ended August 31, 2003 and 2002 included in this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants, to the extent and for the

periods indicated in their report thereon. Such financial statements have been included as APPENDIX D-1 hereto in reliance upon the report of Deloitte & Touche LLP.

The unaudited interim financial statements of the Department for the four-month period ended December 31, 2003 are included in Appendix D-2 to this Official Statement.

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

LITIGATION MATTERS

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

LEGALITY FOR INVESTMENT

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

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

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

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 2004A 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 2004A Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will

be passed upon for the Department by its General Counsel, Chris G. Wittmayer, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Liddell & Sapp LLP.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2004A Bonds, the security therefor and the federal income tax status thereof, particularly the information on the cover and appearing under "THE SERIES 2004A BONDS" (but excluding the information contained therein under the subheadings "Assumptions Regarding Certain Redemptions," and "DTC and Book-Entry"), "SECURITY FOR THE SERIES 2004A BONDS" (but excluding the information set forth under the subheading "Certain Information as to Revenues, Debt Service and Department Expenses"), "THE SENIOR LIEN TRUST INDENTURE," "THE PROGRAM AND THE MORTGAGE LOANS", "THE JUNIOR LIEN TRUST INDENTURE," "SERIES 2004A BONDS - TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A and APPENDIX H to this Official Statement, solely to determine whether such information is correct as to matters of law and fairly and accurately describes or summarizes the provisions of the Act, the laws of the State of Texas, the Junior Lien Trust Indenture and the Obligations. 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.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 2004A Bonds and, in such capacity, has responsibility primarily for providing the Department with information on interest rates, reoffering prices and underwriting fees on similar financings being sold under current market conditions. The Department has also employed the Financial Advisor as a swap financial advisor in connection with the execution of the Swap Agreement.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Series 2004A Bonds from the Department at a price of \$4,140,000. At closing, the Department will pay the Underwriter an underwriting fee of \$9,762. The Underwriter will be obligated to purchase all such Series 2004A Bonds if any are purchased. The Series 2004A Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2004A Bonds into unit investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) at prices lower than public offering prices and the public offering prices may be changed from time to time.

ADDITIONAL INFORMATION

Certain provisions of the Act, the Junior Lien Trust Indenture, the Senior Lien Trust Indenture and the Program Documents are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. The information contained above is subject to change without notice and no implication

is to be derived therefrom or from the sale of the Series 2004A 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 2004A Bonds.

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TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

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

By: /s/ Edwina P. Carrington
Executive Director

APPENDIX A GLOSSARY

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

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

"Acquisition Cost" shall mean the cost to a Borrower of acquiring a Residence from the seller thereof as a completed residential unit, including: (i) all amounts paid, either in cash or in kind, by the Borrower (or a related party or for the benefit of the Borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the Residence; (ii) if the Residence is incomplete, the reasonable cost of completing it, whether or not such cost is to be financed with the Mortgage Loan; and (iii) if the Residence is purchased subject to a ground rent, the capitalized value of the ground rent calculated using a discount rate equal to the yield on the Series 2004A Bonds as determined by the Department in accordance with the provisions of applicable federal income tax law. "Acquisition Cost" does not include (a) usual and reasonable settlement and financing costs (including title and transfer costs, title insurance, survey fees, credit reference fees, hazard or flood insurance premiums, abstract or tax service fees, recording or registration fees, legal fees, appraisal expenses, points paid by the Borrower [but not points paid by the seller and amounts representing buydowns even though borne by the Borrower through a higher purchase price], and other similar costs), but only to the extent that such amounts do not exceed the usual reasonable costs which would be paid by the Borrower in a case in which financing is not provided through the issuance of bonds the interest on which is excludable from gross income for federal income tax purposes; (b) the value of services performed by the Borrower or members of the Borrower's family (including brothers and sisters [whether by whole or halfblood], spouse, lineal ancestors, and lineal descendants only) completing the Residence; (c) the cost of land which has been owned by the Borrower for at least two years prior to the commencement of construction of the Residence; (d) amounts paid by the Borrower (or a related party or for the benefit of the Borrower) to the seller (or a related party or for the benefit of the seller) for personal property which under State law is not a fixture; and (e) amounts paid by the Borrower (or a related party or for the benefit of the Borrower) or the seller (or a related party or for the benefit of the seller) for painting, minor repairs, floor refinishing or other fix-up expenses.

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

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

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

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

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

"Alternate Rate" is defined as described under the caption " THE SERIES 2004A BONDS – Alternate Rate."

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

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

"Assisted Mortgage Loans" shall mean mortgage loans which include down payment and closing costs assistance in an amount equal to four percent (4%) of the principal amount of the mortgage loan.

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

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

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

"Bank" shall mean, with respect to the Series 2004A Bonds, initially DEPFA BANK plc, acting by and through its New York Agency, in its capacity as a party to the Liquidity Facility for the Series 2004A Bonds, until a Substitute Liquidity Facility for the Series 2004A Bonds is executed and delivered and is effective in accordance with the 2004A Series Supplement, and thereafter "Bank" shall also mean the obligor or obligors under such Substitute Liquidity Facility for the Series 2004A Bonds. Any reference to the Bank in any provision herein shall mean the obligor or obligors under the Liquidity Facility.

"Bank Bond Interest Rate" shall mean, with respect to the Series 2004A Bonds, the Bank Bond Interest Rate as defined in Section 1.01 of the Liquidity Facility or the equivalent rate charged by the Bank in any Substitute Liquidity Facility for the Series 2004A Bonds; provided, however, that the Bank Bond Interest Rate for the Series 2004A Bonds shall not exceed the Maximum Rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Cashflow Certificate" shall mean a written certificate signed by an Authorized Representative of the Department stating that the action described in the Letter of Instructions to which such certificate pertains is

consistent with the assumptions used in the Cashflow Statement most recently filed with the Trustee and each Bond Insurer or Credit Provider.

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

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

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

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

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

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

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

"Daily Interest Rate Period" shall mean each period during which a Daily Interest Rate is in effect for the Series 2004A Bonds.

"Debt Service Reserve Account Requirement" shall mean, as of any date of calculation, an amount equal to three percent (3%) (zero percent (0%)) with respect to Senior Lien Trust Indenture mortgage loans represented by mortgage certificates) of the then current balance of all mortgage loans financed with Senior Lien Bonds.

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

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

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

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

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

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

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

"Eligible Borrowers" shall mean persons meeting the requirements set forth under the caption "THE PROGRAM AND THE MORTGAGE LOANS – Eligible Borrowers."

"Escrow Bonds" shall mean any Series 2004A Bonds purchased with moneys furnished by the Bank pursuant to the Liquidity Facility until such Series 2004A Bonds are remarketed as provided in the Tender Agreement.

"Fair Market Value" shall mean, as of any particular date of valuation: (i) as to Investment Securities the bid and asked prices of which are published on a regular basis in a financial journal or publication of general circulation in the United States of America, the bid price for such Investment Securities so published on or most recently prior to the date of valuation by the Trustee or any Depository; (ii) as to Investment Securities the bid and asked prices of which are not published on a regular basis in a financial journal or publication of general circulation in the United States of America, the average bid price on such Investment Securities at the date of valuation by the Trustee or any Depository, as reported by any two nationally recognized dealers in such

Investment Securities; or if neither (i) nor (ii) is available, (iii) as to Investment Securities the bid prices of which are available through a nationally recognized service providing electronic access to market information on such Investment Securities, the current bid price for such Investment Securities as indicated through the electronic transmission of such price through such service as of the time of evaluation by the Trustee or any Depository.

"Fannie Mae Certificate" or "FNMA Certificate" shall mean a guaranteed mortgage pass-through Fannie Mae Mortgage-Backed Security bearing interest at the applicable pass-through rate, issued by Fannie Mae in book-entry form, transferred to the account of the Senior Lien Indenture 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.

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

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

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

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

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

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

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

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

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

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

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

"Immediate Liquidity Termination" shall mean a termination of the Liquidity Facility for the Series 2004A Bonds before its expiration date pursuant to provisions in such Liquidity Facility that allow the Bank to terminate its obligation to purchase the Series 2004A Bonds immediately upon the occurrence of certain events set forth therein without giving any advance notice to the Department.

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

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

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

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

(i) Government Obligations;

(ii) FHA debentures;

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

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

(v) Unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities not in excess of one year) of any bank (including the Trustee) the short-term unsecured debt obligations of which are at the time of such investment rated by each Rating Agency

in the highest category for short-term obligations (A-1+ in the case of Standard & Poor's Credit Market Services);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Long-Term Interest Rate Period" shall mean each period during which a Long-Term Interest Rate is in effect for the Series 2004A Bonds, which shall be a period of at least 181 days.

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

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

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

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

"Mortgage Lender" shall mean the Department and any financial institution or non-profit corporation authorized to transact business in the State of Texas that is approved by the Department to act as an originator and seller of mortgage loans under Program 61.

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

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

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

"Non-Assisted Mortgage Loans" shall mean mortgage loans other than Assisted Mortgage Loans.

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

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

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

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

- (i) Obligations canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (ii) Obligations in lieu of or in substitution for which other Obligations shall have been authenticated and delivered pursuant to the Junior Lien Trust Indenture; and
- (iii) Obligations deemed to have been paid as provided in the Junior Lien Trust Indenture.

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

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

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

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

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

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

"Rebate Analyst" shall mean a certified public accountant or financial analyst, or any firm of the foregoing, or financial institution experienced in making the arbitrage and rebate calculations required pursuant

to Section 148 of the Code and retained as the Department's agent to make the computations and give the directions, if any, required under a Series Supplement.

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

"Record Date," shall mean, (a) in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or any Bond Interest Term, the Business Day immediately preceding each Interest Payment Date, and (b) in respect Series 2004A Bonds in a Long-Term Interest Rate Period, the fifteenth (15th) day of the month immediately preceding such Interest Payment Date or, in the event that such date shall occur prior to the first day of a Long-Term Interest Rate Period, then the Record Date shall be the first day of such Long-Term Interest Rate Period.

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

"Remarketing Agent" shall mean the initial Remarketing Agent appointed for the Series 2004A Bonds and any successor remarketing agent for the Series 2004A Bonds appointed in accordance with the 2004A Series Supplement.

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

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

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

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

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

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

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

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

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

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

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

"Series 2004A Bonds" shall mean the Obligations of the Series authorized by the 2004A Series Supplement.

"Series 2004A Reserve Account Requirement" shall mean an amount equal to three percent (3%) of the principal amount of the Series 2004A Bonds Outstanding.

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

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

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

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

"Short-Term Interest Rate Period" shall mean each period, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect for the Series 2004A Bonds.

"Sixteenth Supplement" shall mean the Sixteenth Single Family Mortgage Revenue Bond Trust Indenture, dated as of May 1, 1994, between the Department and Bank One, Texas, N.A., predecessor to the Senior Lien Indenture Trustee.

"State" shall mean the State of Texas.

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

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

"Substitute Liquidity Facility" shall mean, with respect to the Series 2004A Bonds, a liquidity facility for such Series 2004A Bonds meeting the requirements set forth in the 2004A Series Supplement. Any reference to a Substitute Liquidity Facility in any shall mean the Department if the Department has determined to provide its own liquidity support for the Series 2004A Bonds pursuant to 2004A Series Supplement.

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

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

"Suspension Event" shall mean the occurrence of a default or event of default by the Department under the Liquidity Facility which results in the suspension of the obligation of the Bank to purchase Series 2004A Bonds under the Liquidity Facility.

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

"Swap Agreement Periodic Payments" shall mean payments required to be paid by the Department under the Swap Agreement, other than Swap Agreement Termination Payments.

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

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

"Swap Provider" shall mean UBS AG and any other financial institution with which the Department enters into an interest rate swap agreement with respect to the Series B Bonds.

"Tender Agent" shall mean the initial Tender Agent appointed for the Series 2004A Bonds and any successor tender agent for the Series 2004A Bonds appointed in accordance with the 2004A Series Supplement.

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

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

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

"2004 MAP Loans" shall mean the down payment and closing cost assistance loans made by the Department to certain Eligible Borrowers in the amount of four percent (4%) of the principal amount of the Mortgage Loan. The 2004 MAP Loans will be funded with a portion of the proceeds of the 2004 Junior Lien Bonds.

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

"2004 Swap Agreement Periodic Payment Account" shall mean the 2004 Swap Agreement Periodic Payment Account of the debt service fund under the Senior Lien Trust Indenture from which Swap Agreement Periodic Payments will be made.

"2004 Swap Agreement Periodic Receipt Subaccount" shall mean the 2004 Swap Agreement Periodic Receipt Subaccount of the surplus revenues account of the revenue fund under the Senior Lien Trust Indenture into which Swap Agreement Periodic Receipts will be deposited.

"2004 Swap Agreement Termination Payment Subaccount" shall mean the 2004 Swap Agreement Termination Payment Subaccount of the surplus revenues account of the revenue fund under the Senior Lien Trust Indenture from which Swap Agreement Termination Payments will be made.

"2004 Swap Agreement Termination Receipt Subaccount" shall mean the 2004 Swap Agreement Termination Receipt Subaccount of the surplus revenues account of the revenue fund under the Senior Lien Trust Indenture into which Swap Agreement Termination Receipts will be deposited.

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

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

"Weekly Interest Rate Period" shall mean each period during which a Weekly Interest Rate is in effect for the Series 2004A Bonds.

APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS

Introduction

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

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

FHA Insurance Programs

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

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

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

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

of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

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

Department of Veterans Affairs Mortgage Guaranty Program

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

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

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

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

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

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

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

place, town or village with a population in excess of 10,000 and determined to be urban prior to August 2, 1991 will not be considered an eligible rural area.

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

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

Private Mortgage Insurance Programs

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

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

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

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

Mortgage Pool Insurance

General

The Trust Indenture requires that the Department use its best reasonable efforts to maintain a mortgage pool insurance policy for each series of Bonds in an amount at least equal to ten percent (10%) of the initial aggregate principal amount of Mortgage Loans acquired with the proceeds of each series of Bonds. The

mortgage pool insurance policy requirement with respect to Mortgage Loans purchased with proceeds of Bonds and not included within Mortgage Certificates, other than the 1986 Series A Bonds, 1986 Series B Bonds and 1987 Series B Bonds, has been satisfied by the Department's prior receipt of (i) policies from Mortgage Guaranty Insurance Corporation ("MGIC"), covering Mortgage Loans financed with the proceeds of the 1980 Series A Bonds, 1982 Series A Bonds, 1983 Series A Bonds, 1985 Series A Bonds and 1985 Series B/C Bonds and (ii) a policy covering Mortgage Loans financed with the proceeds of the 1984 Series A/B/C Bonds from Verex Assurance, Inc. ("Verex"), which policy was transferred to Verex's parent company, General Charter Mortgage Insurance Corporation, in 1993. Certain of the policies issued by MGIC and Verex provide for advance claims payments with respect to delinquent Mortgage Loans.

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

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

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

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

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

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

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

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

Some insurers have delivered endorsements to certain mortgage pool insurance policies which provide that they will make advance claims payments in amounts equal to delinquent regular monthly payments of principal of and interest on each Mortgage Loan that is delinquent in three or more monthly payments after receipt of ten days prior written notice thereof. Such advance claims payments will generally be made only if the Mortgage Loan servicer has initiated foreclosure proceedings as required by the mortgage pool insurance policy and diligently pursues such proceedings. The insurer will continue to make such advance claims payments until the insured files, or should have filed, a claim with respect to the Mortgage Loan for which such payments have been made. Advance claims payments must be repaid after payments on the Mortgage Loan have been received (either from the mortgagor, FHA, VA, RHS, private mortgage insurance or through foreclosure) for which advances were previously made or if a claim under the policy is not filed. Claim settlements under a mortgage pool insurance policy will usually be reduced by the sum of unreimbursed claims advances.

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

Self-Insurance Program

In connection with the 1986 Series A Bonds, the 1986 Series B Bonds and the 1987 Series B Bonds, the Department has been unable to obtain acceptable mortgage pool insurance policies from private mortgage insurers and, in lieu of such policies, established a mortgage pool self-insurance program. The Department and the Trustee entered into a separate Mortgage Pool Self-Insurance Fund Agreement with respect to each such Series of Bonds (each, an "SIF Agreement") pursuant to which: (i) the Department has established or will establish a Mortgage Pool Self-Insurance Fund (a "Self-Insurance Fund") and has deposited or will deposit therein an initial amount equal to .4% of the aggregate principal amount of the Mortgage Loans acquired under the applicable phase of the Program; (ii) the Department has contributed or will contribute to the respective Self-

Insurance Fund, until the amount deposited therein equals the Required Fund Amount (as hereinafter defined), all earnings resulting from the investment of the moneys held in the respective Self-Insurance Fund, together with revenues in an amount equal to .15% per annum of the aggregate outstanding principal balance of the Mortgage Loans acquired under the applicable phase of the Program; and (iii) the Department will apply amounts held in the respective Self-Insurance Fund to cover cashflow deficiencies with respect to Mortgage Loans acquired under the applicable phase of the Program deemed to be in default under applicable FHA rules and regulations ("Advance Payments"), and to cover any Loss (as hereinafter defined) incurred in connection with a defaulted Mortgage Loan acquired under the applicable phase of the Program, by transferring appropriate amounts from the respective Self-Insurance Fund to the Revenue Fund. The term "Required Fund Amount" means an amount equal to 1.8% of the initial aggregate principal balance of the Mortgage Loans acquired under the applicable phase of the Program, reduced by the aggregate amount of any unreimbursed Advance Payments and any Losses paid from the respective Self-Insurance Fund. The term "Loss" means, with respect to a defaulted Mortgage Loan, an amount equal to: (a) the sum of (i) the unpaid principal balance of the Mortgage Loan as of the date of disposition thereof by the Department, (ii) the accumulated delinquent interest on the Mortgage Loan until the date of the payment of FHA insurance proceeds, and (iii) all advances made by or on behalf of the Department in connection with the Mortgage Loan to pay hazard insurance premiums, FHA insurance premiums, real estate property taxes, property protection and preservation expenses, property sale expenses and foreclosure costs; reduced by (b) the sum of (i) the net proceeds received upon disposition of the Mortgage Loan, and (ii) any amount received by or on behalf of the Department pursuant to FHA mortgage insurance with respect to the Mortgage Loan.

Although the amounts held in a Self-Insurance Fund are not part of the Trust Estate, the Department covenanted in the Trust Indenture to create and maintain each Self-Insurance Fund and to apply the moneys therein to pay advance payments and losses incurred in connection with Mortgage Loans acquired under the applicable phase of the Program. The Department is not obligated to fund a Self-Insurance Fund beyond the Required Fund Amount and the Department's obligation to contribute amounts into a Self-Insurance Fund up to the Required Fund Amount is limited to amounts available from investment earnings on the respective Self-Insurance Fund and from Revenues in an amount equal to .15% per annum of the aggregate outstanding principal balance of the Mortgage Loans acquired under the applicable phase of the Program. No other assets or revenues of the Department are required to be contributed to the Self-Insurance Fund or applied to pay Advance Payments or Losses.

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

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

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

Standard Hazard Insurance Policies

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

In general, a Standard Hazard Insurance Policy covers physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike or civil commotion, subject to the conditions and exclusions particularized in each policy. If a residence is located in a

designated flood area, flood insurance shall be required to be maintained, and if not covered by other insurance under the Agreement, insurance shall be required to be maintained for wind damage on each residence to the extent deemed advisable by the supervising agent from time to time.

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

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

Foreclosure Laws

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

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

State courts have in the past strictly construed the power of sale created by deeds of trust or other lien instruments and, where both contractual and statutory provisions for nonjudicial foreclosure have not been precisely followed, have declared nonjudicial foreclosure sales to be invalid. In addition, although the State statute providing standards for nonjudicial foreclosures has previously survived challenges that it is unconstitutional, there can be no assurance that such a challenge in the future will not be successful. A foreclosure sale of property on which the United States claims a lien for federal income tax collection, will be made subject to and without disturbing the federal tax lien unless notice of the foreclosure sale is given to the Internal Revenue Service at least 25 days before the sale. Without this prior notice, the sale is made subject to the federal tax lien. Even when such notice is properly given, the United States may redeem such property within 120 days from the date of the sale, upon payment of the amount paid or credited at the sale, and interest from the date of the sale, and any cost in owning property in excess of the derived income. The remedy of

nonjudicial foreclosure may be limited, restricted or denied, not only by bankruptcy or other debtor relief proceedings, but also by the death of a mortgagor either without leaving a will or with probate proceedings that are not independent of the probate court or by the appointment of a receiver by the court in a divorce action involving mortgages to which the spouses in such divorce proceedings are parties. The remedies afforded the holder of the mortgage debt in the events set forth in the preceding sentence require judicial action either as a prerequisite to the valid exercise of nonjudicial foreclosure or in the nature of a judicial foreclosure proceeding or sale through the legal representative involved with the sanction of the court.

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

APPENDIX C

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

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Additional Information Concerning Mortgage Loans And Mortgage Certificates

The Texas Department of Housing and Community Affairs (the "Department") owns an extensive portfolio of mortgage loans (the "Portfolio Mortgage Loans") and GNMA/FNMA Certificates (Mortgage Certificates) acquired with the proceeds of the Department's Single Family Mortgage Revenue Bonds, Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds), Residential Mortgage Revenue Bonds, GNMA Collateralized Home Mortgage Revenue Bonds and Collateralized Home Mortgage Revenue Bonds. The following tables summarize certain information regarding the Portfolio Mortgage Loans and Mortgage Certificates, as of December 31, 2003, and are included solely for the purpose of providing comparative information with respect to the Portfolio Mortgage Loans and Mortgage Certificates. This information should not be construed as a representation or opinion of the Department that the information concerning the new Mortgage Loans and Mortgage Certificates will approximate the information shown below.

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

1980 Trust Indenture

Series ⁽¹⁾	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1980 A	\$ 150,000,000	\$ 0	11.20 %	\$ 135,128,160	\$ 4,029,584
1982 A	100,000,000	0	13.93	14,212,374	53,761
1983 A	238,800,000	0	10.79	216,279,114	7,298,077
1984 A/B	304,200,000	0	12.10/9.75	171,587,864	3,750,491
1985 A	200,000,000	0	9.75	118,045,235	6,728,092
1985 B	123,996,157	0	9.70/9.55	29,176,707	1,662,954
1985 C	30,000,000	0	8.20	27,726,028	2,476,917
1986 A	83,425,000	0	8.70	73,526,184	6,193,738
1986 B	90,280,000	0	7.99/7.90	82,298,613	9,385,215
1987 A	14,840,000	0	---	---	---
1987 B	77,700,000	0	7.99/8.05/8.70	69,445,860	4,671,438
1991 A	81,605,000	0	---	---	---
1995 A-1, B-1, C-1	167,125,000	64,825,000	6.65	98,309,227	41,843,078
1996 A, B, C	59,140,000	15,670,000	5.95*	19,273,572	10,133,159
1996 D, E	169,490,000	74,590,000	6.75	92,277,298	40,677,807
1997 A, B, C	79,500,000	58,475,000	5.95*	78,969,869	52,811,806
1997 D, E, F	85,090,000	43,025,000	5.95*	66,463,700	47,440,769
2002 A, B, C, D	118,000,000	114,490,000	5.90/6.20/6.50*	19,908,577	18,875,154
TOTAL	\$ 2,173,191,157	\$371,075,000		\$ 1,312,628,382	\$ 258,032,040

* = "Buy Down" Rate

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

certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Bonds 1997 Series D and Series F provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 1997 Series E refunded all outstanding 1987 Series B Bonds. The Single Family Mortgage Revenue Bonds 2002 Series A provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Single Family Mortgage Revenue Refunding Bonds 2002 Series B refunded and redeemed an equal amount of Residential Mortgage Revenue Bonds 2001 Series E and the 2002 Series C refunded certain notes which previously refunded certain Bonds outstanding. The Single Family Mortgage Revenue Refunding Bonds 2002 Series D refunded all outstanding 1991 Series A Bonds.

1994 Junior Lien Trust Indenture Single Family Mortgage Revenue Refunding Bonds

Series ⁽²⁾	Original	Bonds	Mortgage	Mortgage Certificates	
	Issue Amount	Outstanding	Rate	Originated	Outstanding
1994 A	\$ 35,000,932	\$ -	5.95/6.65/6.75%	\$ 11,354,583	\$ 7,287,594
1994 B	55,995,000	-	5.95	2,784,029	2,338,887
2002 A	10,000,000	10,000,000		-	-
TOTAL	\$ 100,995,932	\$ 10,000,000		\$ 14,138,612	\$ 9,626,481

(2) The Junior Lien Single Family Revenue Refunding Bonds 1994 Series A&B refunded all outstanding 1983 Series A Bonds. The Taxable Junior Lien Single Family Mortgage Revenue Bonds 2002 Series A were issued for the primary purpose of providing funds to finance single-family mortgage loans, multifamily mortgage loans, downpayment assistance for eligible very low income first-time homebuyers in connection with the purchase or development of homes located primarily in rural and border regions, to pay cost of issuance of the 2002 Series A Bonds and other permitted programs and purposes as determined by the Department from time to time. Loan balances are not included in the table above because 2002 Series A debt service is not dependent on loan repayments.

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

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Prior Mortgage Loans
Conventional	767	\$ 22,961,965	52.00%
FHA	646	21,656,269	43.80%
VA	62	1,632,034	4.20%
Total	1,475	\$ 46,250,268	100.00%

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

Conventional

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	71	\$ 2,147,730	4.81%
60 days	17	533,041	1.15%
90 days or more	25	811,493	1.69%
Total	113	\$ 3,492,264	7.66%

FHA

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	48	\$ 1,811,053	3.25%
60 days	19	711,131	1.29%
90 days or more	15	663,666	1.02%
Total	82	\$ 3,185,850	5.56%

VA

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	4	\$ 132,579	0.27%
60 days	3	57,852	0.20%
90 days or more	3	123,807	0.20%
Total	10	\$ 314,238	0.68%

TOTAL

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	123	\$ 4,091,362	8.34%
60 days	39	1,302,024	2.64%
90 days or more	43	1,598,967	2.92%
Total	205	\$ 6,992,353	13.90%

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

<u>Series</u>	<u>Mortgage Rate</u>	<u>Total Loans Acquired</u>	<u>Total Loans Prepaid⁽³⁾</u>	<u>Percent Prepaid</u>
1980 Series A	11.20	2,947	2,754	93.45%
1982 Series A	13.93	340	332	97.65%
1983 Series A	10.79	3,737	3,504	93.77%
1984 Series A/B	12.10/9.75	3,040	2,916	95.92%
1985 Series A	9.75	2,011	1,812	90.10%
1985 Series B	9.70/9.55	558	504	90.32%
1985 Series C	8.20	462	386	83.55%
1986 Series A	8.70	1,121	958	85.46%
1986 Series B	7.99/7.90	1,291	1,036	80.25%
1987 Series B	7.99/8.05/8.70	1,168	998	85.45%
Totals		16,675	15,200	91.15%

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

From the inception of the Department's single family mortgage program through December 31, 2003, the Department has foreclosed on 3,054 Portfolio Mortgage Loans having an unpaid principal balance at default of \$157,031,560. As of December 31, 2003, the Department continued to hold title to property securing three of such Portfolio Mortgage Loans aggregating \$46,372 in unpaid principal balance. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has employed outside contractors to manage, maintain, and arrange for sale, in conjunction with brokers, such real estate owned.

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

Master Servicers—Mortgage Certificate Loans--Single Family

Servicers	Percent of Total Loans
CitiMortgage, Inc.	42.63%
Texas Star Mortgage	48.57%
Countrywide	8.80%
Total	100.00%

Servicers—Mortgage Loans--Single Family

Servicers	Percent of Total Loans
Mitchell Mortgage Company	50.40%
Meritech Mortgage Services, Inc.	15.62%
CitiMortgage, Inc.	11.86%
Guaranty Residential Lending, Inc.	6.08%
First Horizon Home Loan Corp.	5.31%
Other	10.73%
Total	100.00%

Mortgage Pool Insurance and Self Insurance Fund Balance Single Family Mortgage Revenue Bonds

Initial Bond (Refunded Bond) Series	Insurance Provider	Remaining Coverage Amount
1980A	MGIC	\$ 5,445,438
1982A	MGIC	1,005,444
1983A	MGIC	8,657,485
1984A/B	GEMIC	5,695,470
1985A	MGIC	4,180,703
1985B/C	MGIC	5,012,109
1986A(1996B) ⁽⁴⁾	Self Insurance	440,976
1986B(1996E) ⁽⁴⁾	Self Insurance	562,094
1987B(1997E) ⁽⁴⁾	Self Insurance	496,960
Total		\$ 31,496,679

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

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

Bond Series	Debt Service Reserve ⁽⁵⁾	
	Par Value Fund Balances	Average Investment Rate ⁽⁶⁾
	Actual	Rate ⁽⁶⁾
1980	347,998	13.875%
1996 D-E	941,870	13.250%
2002A Jr. Lien	300,000	13.875%
Total	\$ 1,589,868	

(5) 1980 Trust Indenture Twentieth Supplement reduced the Debt Service Reserve Requirement from 10% of bonds outstanding to 3% of loans outstanding and eliminated the Mortgage Reserve Requirement but did not affect the Debt Service Reserve Requirement relating to the Junior Lien Bonds.

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

Part III: Other Information

Mortgage Loan Information Management System

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

The Department is currently managing its Mortgage Loans (other than Mortgage Loans backing Mortgage Certificates) through review of the performance of the various lending institutions participating in the program, review of the delinquency and foreclosure reports of the lenders, directing the investment of monthly receipts, payment of expenses and supervision of claims under the mortgage insurance policies. The Department does not service the Mortgage Loans backing Mortgage Certificates; however, the Department monitors the origination and payment of such Mortgage Loans. The Department currently manages the Mortgage Loans using a new Loan Administration and Servicing System from the MITAS Group, Inc. MITAS' Loan Administration software is a comprehensive and fully integrated system that has the ability to combine all types of loans into a central database and is also capable of fully complying with all aspects of loan servicing as prescribed by major secondary market investors.

DISCLAIMER

"All information contained herein is obtained from sources believed to be accurate and reliable. Refer to the Official Statement and operative documents of each series for complete information on that issue. Because of the possibility of human and mechanical error as well as other factors, such information is provided "as is" without warranty of any kind and, in particular, no representation or warranty, expressed or implied, is made nor to be inferred as to the accuracy, timeliness or completeness, of any such information. Under no circumstances shall the Texas Department of Housing and Community Affairs have any liability to any person or entity for (a) any loss or damage in whole or part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstances involved in procuring, collecting, compiling, interpreting, analyzing, editing, transcribing, transmitting, communicating or delivering any such information, or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if the Texas Department of Housing and Community Affairs is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, any such information."

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APPENDIX D-1
AUDITED FINANCIAL STATEMENTS
OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2003 and 2002
[Report of Independent Auditors]

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

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

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of Texas Department of Housing and Community Affairs—Revenue Bond Enterprise Fund (the “Fund”) as of August 31, 2003 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and supporting schedules 3 through 6 (supplementary information on pages 31 to 52). These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

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

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Texas Department of Housing and Community Affairs—Revenue Bond Enterprise Fund at August 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, schedules 3 through 6 (supplementary information on pages 31 to 52) present fairly, in all material respects, the information set forth therein.

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

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

Deloitte + Touche LLP

December 15, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

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

Financial Statements

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

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

Financial Analysis of the Revenue Bond Program

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Assets

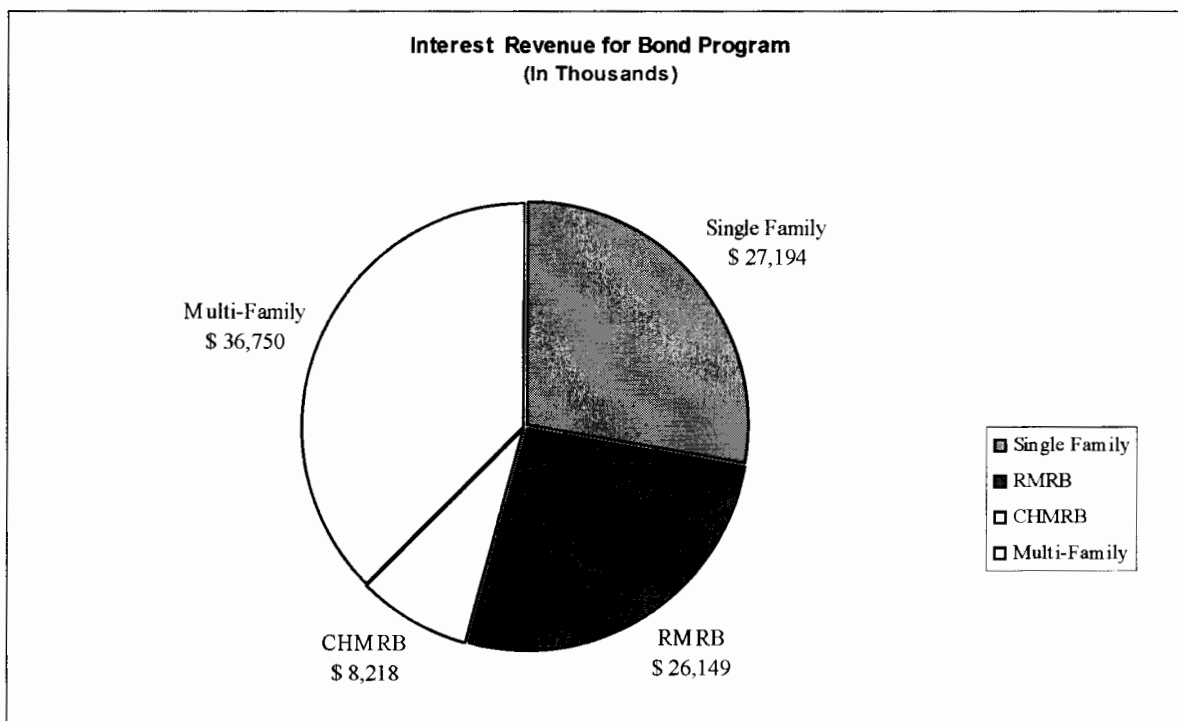
	2003	2002	Increase / (Decrease)	
			Amount	Percentage
OPERATING REVENUES:				
Interest and investment income	\$ 98,952,871	\$ 102,207,695	\$ (3,254,824)	3.2 %
Net increase (decrease) in fair value	(6,195,744)	24,642,250	(30,837,994)	(125.1)
Other operating revenues	<u>4,308,633</u>	<u>3,458,597</u>	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

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

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

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

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



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

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

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

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

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

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

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

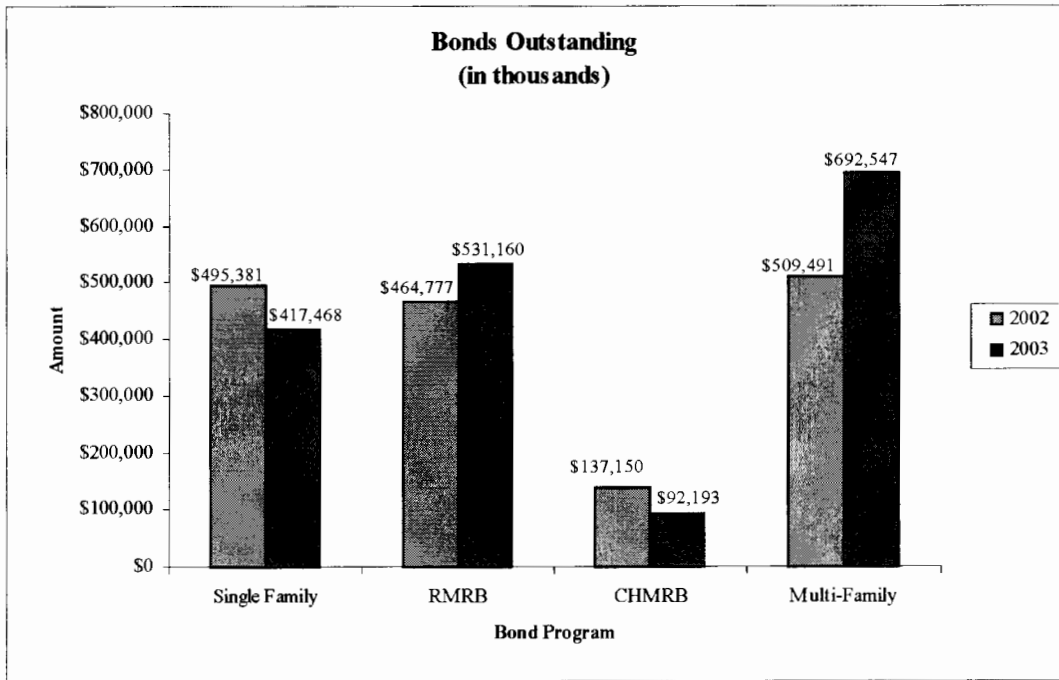
Fund	2003	2002	Increase/(Decrease)	
			Amount	Percentage
Single Family	\$58,538	\$ 62,367	\$(3,829)	6.1 %
RMRB	17,463	22,818	(5,355)	(23.5)
CHMRB	2,191	1,738	453	26.1
Multifamily	1,632	1,382	250	18.1
1993 SF CHMRB	1,390	1,757	(367)	(20.9)
1994/1995 SF CHMRB	2,823	3,461	(638)	(18.4)
Commercial paper	28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

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

Department Debt

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

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



Request for Information

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

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

**STATEMENT OF NET ASSETS
AUGUST 31, 2003**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents:

Cash on hand	\$ 200
Cash in bank	90,388
Cash in state treasury	1,263,371
Cash equivalents	9,838,047

Restricted assets:

Cash and cash equivalents:

Cash in bank	904,173
Cash equivalents	164,488,833
Short-term investments	125,757,201
Loans and contracts	7,149,873
Interest receivable	9,986,771
Consumable inventories	11,308
Other current assets	<u>540,218</u>

Total current assets 320,030,383

NONCURRENT ASSETS:

Capital assets—Nondepreciable—other capital assets 3,273

Depreciable:

Furniture and equipment	1,238,404
Less accumulated depreciation	(970,547)

Restricted assets:

Investments	1,004,010,867
Loans and contracts	759,800,673
Notes receivable	1,000,000

Other noncurrent assets:

Deferred bond issuance cost—net	11,379,321
Real estate owned—net	<u>756,360</u>

Total noncurrent assets 1,777,218,351

TOTAL ASSETS \$ 2,097,248,734

(Continued)

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

**STATEMENT OF NET ASSETS
AUGUST 31, 2003**

LIABILITIES

CURRENT LIABILITIES:

Payables:

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

 Total current liabilities 108,352,902

NONCURRENT LIABILITIES:

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

 Total noncurrent liabilities 1,891,827,264

TOTAL LIABILITIES 2,000,180,166

NET ASSETS:

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

TOTAL NET ASSETS \$ 97,068,568

See accompanying notes to the financial statements.

(Concluded)

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

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

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

See accompanying notes to the financial statements.

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

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

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

(Continued)

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

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

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

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

See accompanying notes to the financial statements.

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS— REVENUE BOND PROGRAM

NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2003

1. GENERAL STATEMENT AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The Program operates several bond programs under separate trust indentures, as follows:

- *Single-Family Bond Program (“Single-Family”)*—These bonds are limited obligations of the Department. Bond proceeds were used to originate below-market rate loans for eligible low- and moderate-income residents who were purchasing a residence. These bonds were issued pursuant to a Single-Family Mortgage Revenue Bond Trust Indenture, dated October 1, 1980, and indentures supplemental thereto, and are secured on an equal and ratable basis by the trust estate established by such trust indentures.
- *Residential Mortgage Revenue Bond Program (“RMRB”)*—Eleven series (three of which have been refunded) of these bonds have been issued pursuant to the RMRB master indenture and ten separate Series Supplements, and are secured on an equal and ratable basis by the trust estates established by such trust indentures. Proceeds from the 1987 A Bonds were used to purchase single-family loans, while proceeds from the remaining RMRB bond issues were used to purchase pass-through certificates created through the origination of single-family loans.

- *Collateralized Home Mortgage Revenue Bond Program (“CHMRB”)*—The Department issued six series of bonds pursuant to the CHMRB Trust Indenture with separate supplements for each series. The bonds are secured on an equal and ratable basis. Proceeds from the bonds are being used to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the state.
- *Multifamily Housing Revenue Bond Programs (“Multifamily”)*—These bonds were issued pursuant to separate trust indentures and are secured by individual trust estates, which are not on an equal and ratable basis with each other. The bonds are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the individual trust indentures. Under these programs, the proceeds were either provided to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing or used to refund other multifamily bonds issued for the same purposes.
- *Collateralized Home Mortgage Revenue Bond Program—Series 1994 and 1995 (“COBs”)*—On November 1, 1994, the Department issued Single-Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program), Series 1994, in the amount of \$84,140,000. This bond program was issued as a Private Placement Memorandum with Federal National Mortgage Association (“FNMA”). The Series 1994 and 1995 COBs were issued to provide funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured, VA-guaranteed, FMHA-guaranteed mortgage loans, or conventional mortgage loans acceptable for pooling by FNMA, made to eligible borrowers for single-family residences.
- *Commercial Paper Notes*—By resolution adopted November 10, 1994, the Department’s Board has authorized the issuance of two series of commercial paper notes: its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A, and its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series B (collectively, the “Notes”). Pursuant to the resolution, the Department is authorized to issue the Notes in an aggregate principal amount not to exceed \$75,000,000 outstanding. Proceeds of the initial issuance of the Notes and of future issues not issued to refund outstanding Notes will be used to redeem certain of the Department’s single-family mortgage revenue bonds (the “Refunded Bonds”), which are subject to redemption as a result of the receipt by the Department of prepayments of the related underlying mortgage loans. Such prepayments may, at a future date, be recycled into new mortgage loans by the Department. The Notes are being issued in anticipation of the issuance of refunding bonds that will refund the Notes.
- *Housing Trust Fund*—The Department Act provided for a transfer of a portion of the unencumbered fund balance from the bond programs for use in the Housing Trust Fund. The Housing Trust Fund will be used to provide assistance for low- and very-low-income persons and families in financing, acquiring, rehabilitating and developing affordable, decent and safe housing. The Housing Trust Fund will be made available to local units of government, public housing authorities, the Department, community housing development organizations and nonprofit organizations, as well as eligible low- and very-low-income individuals and families.
- *Continuance Subject to Review*—Under the Texas Sunset Act, the Department will be abolished effective September 1, 2011, unless it is continued in existence as provided in the Texas Sunset Act. If abolished, the Department may continue in existence until September 1, 2012, to close out its operations.

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

- a. *Fund Accounting*—The Program’s financial statements have been prepared on the basis of the governmental proprietary fund concept as set forth by the Governmental Accounting Standards Board (“GASB”). The governmental proprietary fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as a proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. The Program has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- b. *Investments*—The Program follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement No. 31 requires certain types of investments to be reported at fair value on the balance sheet. The Program utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. Fair value of the Program’s securitized mortgage loans (“GNMA/FNMA”) has been estimated by each bond issue’s trustee using a pricing service.

The Program has reported all investment securities at fair value as of August 31, 2003, with the exception of certain money market investments and nonparticipating interest-earning investment contracts, which are reported at amortized cost (historical cost adjusted for amortization of premiums and accretion of discounts), provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors (see Note 2).

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

- c. *Mortgage-Backed Securities*—The Program’s portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities or mortgage pass-through certificates.
- d. *Note Receivable*—The note receivable represents a long-term receivable from a third party. It is due and payable in 2005.
- e. *Loans Receivable*—Loans receivable are carried at the unpaid principal balance outstanding less the allowance for estimated loan losses and deferred commitment fees. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status when the Department becomes aware that the borrower has entered bankruptcy proceedings or when the loans are 90 days past due as to either principal or interest or when payment in full of principal and interest is not expected. Deferred commitment fees are recognized using the interest method over the estimated lives of the single-family loans and the contractual lives, adjusted for actual repayments, of the multifamily loans.

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

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

- g. *Allowance for Estimated Losses on Loans and Foreclosed Properties*—The allowance for estimated losses on loans is available for future chargeoffs on single-family and multifamily loans. The allowance for estimated losses on real estate owned is available for future chargeoffs on foreclosed single-family loans.

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

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

- h. *Commitment Fees*—Commitment fees received in connection with the origination of loans are deferred and recognized using the interest method over the estimated life of the related loans and mortgage-backed securities, or if the commitment expires unexercised, it is credited to income upon expiration of the commitment.
- i. *Deferred Issuance Costs*—Deferred issuance costs on bonds are amortized using the interest method over the contractual life of the bonds to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of deferred issuance costs.
- j. *Discounts and Premiums on Debt*—Discounts and premiums on debt are recognized using the interest method over the life of the bonds or collateralized mortgage obligations to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt.
- k. *Restricted Net Assets*—The net assets of the Program are restricted for various purposes of the bond trust indentures.
- l. *Invested in Capital Assets*—This component of net assets consists of capital assets, net of accumulated depreciation.
- m. *Cash Flows*—For purposes of reporting cash flows, cash and cash equivalents consist of cash and short-term investments with a maturity at the date of purchase of three months or less, which are highly liquid and are readily exchanged for cash at amounts equal to their stated value.

- n. *Interfund Transactions*—The Program has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another, and they are accounted for as revenue or expense. All other interfund transactions are reported as transfers.
- o. *Gain/Loss on Refundings of Debt*—Any gain/loss on refunding of bonds is deferred and amortized as a component of interest expense using the interest method.
- p. *Loss on Early Extinguishment of Debt*—Any loss on extinguishment of debt prior to its stated maturity is recorded in the period the debt is retired.
- q. *Estimates*—In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported revenues and expenses for the period. Actual results could differ significantly from those estimates. Management judgments and accounting estimates are made in the evaluation of the allowance for estimated losses on loans and real estate owned and in determination of the assumptions with respect to prepayments on loans and mortgage-backed securities in the recognition of deferred commitment fees to income.

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

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

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

At August 31, 2003, the Program’s bank deposits amounted to \$994,561, with bank balances of \$994,561. The entire amount was in a depository fully collateralized by securities held with a Trustee in the Department’s name or covered by Federal Deposit Insurance Corporation (“FDIC”) insurance coverage. Collateralized cash held by and in the name of paying agents, trustees, and depositories amounted to zero. At August 31, 2003, the Program’s cash and deposits in the State Treasury amounted to \$1,263,371. This amount was fully collateralized by securities held with a trustee in the State’s name, as reported to the Department of Comptroller of Public Accounts of the State of Texas.

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

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$412,517,333 of investment agreements/contracts at August 31, 2003, which are unsecured. Additionally, the Department held uncategorized investments of approximately \$78,464,000 in constant-dollar money market mutual funds that are not subject to collateralization. The Department considers these investment agreements/contracts to be Category 3. Under an agreement with the Department, the counterparty must maintain a rating on long-term, unsecured, unsubordinated debt obligations at "AAA" by Standard & Poor's, "Aaa" by Moody's and/or other comparable high rating during the term of the agreement/contract. Should the rating fall below the requirement, the counterparty shall either substitute an acceptable replacement guarantor, deliver collateral or repay the principal of and accrued but unpaid interest on the investment. A summary of investments by type at August 31, 2003 is as follows (in thousands):

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

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

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

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

3. RESTRICTED ASSETS

Cash in bank, cash equivalents, short-term investments, loans and contracts, interest receivable and investments (which include mortgage-backed securities) totaling \$2,085,234 are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishing of accounts for the segregation of assets and restricting the use of bond proceeds and other funds in connection with each bond program. Such restricted assets, primarily investments, are as follows at August 31, 2003 (in thousands):

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

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

4. LOANS RECEIVABLE

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

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

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

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

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

The single-family trust indenture requires the Department to obtain and maintain mortgage pool insurance on loans collateralizing each series of bonds issued under that trust indenture. Except with respect to four series, the requirement has been satisfied by purchasing and maintaining a mortgage pool insurance policy for each bond series. For loans collateralizing the other four series of bonds, the Department has entered into Mortgage Pool Self-Insurance Fund Agreements ("Agreements") with the trustee. The funding requirements of these Agreements have been met as of August 31, 2003.

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

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

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

5. REAL ESTATE OWNED

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

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

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

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

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

6. BONDS PAYABLE

Bonds payable activity for the year ended August 31, 2003 consisted of the following (in thousands):

	Original Face Amount	Balance September 1, 2002	Additions/ Accretions	Maturities/ Prepayments	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
Single-family:							
1991 Series A 4.8% to 7.15%	\$ 81,605	\$ 13,605	\$ -	\$13,605	\$ -	2012	
1995 Series A—4.15% to 6.15%	85,760	66,760		11,990	54,770	2027	
1995 Series C—6.44% to 7.76%	71,760	32,595		12,110	20,485	2017	
1996 Series A—4.5% to 6.3%	15,000	9,975			9,975	2028	
1996 Series B—5.5% to 6%	42,140	15,465		6,255	9,210	2017	
1996 Series D—5.45% to 6.25%	70,760	56,820		9,135	47,685	2028	
1996 Series E—3.9% to 6%	98,730	51,835		11,265	40,570	2017	\$1,940
1997 Series A—5.25% to 5.80%	44,465	42,865		775	42,090	2029	
1997 Series B—5.45%	9,510	9,510			9,510	2019	
1997 Series C—6.80%	25,525	15,310		3,875	11,435	2029	
1997 Series D—5.65% to 5.70%	44,795	41,755		5,000	36,755	2029	
1997 Series F—6.77%	20,000	13,680		2,845	10,835	2029	
2002 Series A—7.01%	10,000	10,000			10,000	2026	
2002 Series A—5.45% to 5.55%	38,750	38,750			38,750	2034	
2002 Series B—5.35% to 5.55%	52,695	52,695			52,695	2033	
2002 Series C—2.80% to 5.20%	12,950	12,950			12,950	2017	
2002 Series D—2.0% to 4.5%	13,605	<u>13,605</u>		<u>1,750</u>	<u>11,855</u>	2012	<u>930</u>
Total principal amount		498,175	<u>\$ -</u>	<u>\$78,605</u>	419,570		<u>\$2,870</u>
Unamortized premium		1,579			1,492		
Unamortized discount and losses on refundings		<u>(4,373)</u>			<u>(3,594)</u>		
Total single-family		<u>\$ 495,381</u>			<u>\$417,468</u>		

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
RMRB:							
1989 Series A—6.6% to 7.6%	\$ 44,000	\$ 40		\$ 40		2016	
1989 Series B—7.85%	45,000	45		45		2018	
1998 Series A—4.05% to 5.35%	102,055	90,625		8,445	\$ 82,180	2031	\$1,850
1998 Series B—5.30%	14,300	13,560		450	13,110	2022	
1999 Series A—4.80% to 5.50%	25,615	16,370		3,770	12,600	2021	
1999 Series B-1—6.32% to 5.50%	52,260	49,520		2,070	47,450	2032	
1999 Series C—5.05% to 6.25%	12,150	12,150		185	11,965	2024	110
1999 Series D—4.30% to 6.25%	26,355	12,540		12,165	375	2021	
2000 Series A—5.10% to 6.30%	50,000	46,210		7,545	38,665	2031	460
2000 Series B—5.70%	82,975	81,955		3,180	78,775	2033	
2000 Series C—5.85% to 5.82%	13,675	13,425		635	12,790	2025	
2000 Series D—4.55% to 5.85%	18,265	17,815		1,545	16,270	2020	835
2000 Series E—7.45%	10,000	9,215		3,340	5,875	2033	
2001 Series A—3.15% to 5.70%	52,715	52,715		1,465	51,250	2033	805
2001 Series B—5.0% to 5.25%	15,585	15,585		520	15,065	2022	
2001 Series C—2.55% to 4.63%	32,225	32,225		5,600	26,625	2015	1,820
2001 Series D—5.35%	300	300		65	235	2033	
2002 Series A—2.25% to 5.35%	42,310		\$ 42,310	5	42,305	2034	665
2002 Series B—1.25%	74,655		74,655	74,655		2035	
2003 Series A—1.70% to 5.00%	73,630		73,630		73,630	2034	
Total principal amount		464,295	\$190,595	\$125,725	529,165		\$6,545
Unamortized premium		2,996			4,558		
Unamortized discount and loss on refundings		(2,514)			(2,562)		
Total RMRB		\$464,777			\$531,161		
CHMRB:							
1992 Series C—linked rate averaging 6.90%	\$ 72,700	\$ 58,300		\$ 16,100	\$ 42,200	2024	
Total principal		58,300		\$ 16,100	42,200		
Plus unamortized premium		1,415			1,003		
Total CHMRB		\$ 59,715			\$ 43,203		
SF MRB CHMRB:							
1993 Series A—5.85%	\$ 11,695	\$ 5,585		\$ 1,495	\$ 4,090	2025	
1993 Series B—6.62%	15,000	6,760		2,105	4,655	2025	
1993 Series C—6.68%	15,000	7,735		2,985	4,750	2025	
1993 Series D—6.76%	8,000	3,440		1,005	2,435	2025	
1993 Series E—6.85%	8,780	3,060		1,020	2,040	2025	
1994 Series A—6.85%	35,395	20,860		8,505	12,355	2026	
1994 Series B—6.4%	33,385	19,330		6,490	12,840	2026	
1994 Series C—6.25%	15,360	9,985		4,250	5,735	2026	
1995 MRRB Series A—6.26%	5,825	680		590	90	2015	
Total SF MRB CHMRB		\$ 77,435		\$ 28,445	\$ 48,990		

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
1984 Series (Allied Bank Private Placement—Summer Bend at Las Colinas)—variable rate currently at 8%	\$10,100	\$ 8,120	\$ -		\$ 8,120	2022	
1987 Series (South Texas Rental Housing)—9.5%	1,400	964		\$ 58	906	2012	\$ 63
1993 Series A and B Refunding (High Point III Development/ Remington Hill Development)	26,370	12,490			12,490	2023	
1993 Residential Rental (National Center)—3.3% to 5.89%	16,775	14,495		350	14,145	2024	
1996 Series A and B (Brighton's Mark)—6.13%	9,748	8,075			8,075	2026	
1996 Series A and B (Marks of Las Colinas)—5.56%	14,870	14,870			14,870	2026	
1996 Series A and B (Braxton's Mark)—5.81%	14,274	14,274			14,274	2026	
1996 Series A, B, C and D (Dallas-Fort Worth)—6% to 10%	22,150	20,555		325	20,230	2026	415
1996 Series A, B, C and D (Harbors and Plumtree)—5.9% to 10%	13,050	12,035		210	11,825	2026	225
1996 Series A and B (NHP Foundation)—5.50% to 6.4%	27,560	25,475		460	25,015	2027	490
1997 Series (Meadow Ridge) 5.05% to 5.55%	13,575	13,130		180	12,950	2030	190
1998 Series (Pebble Brook)—4.95% to 5.60%	10,900	10,700		145	10,555	2030	150
1998 Series A, B and C (Residence Oaks)—5.98% to 7.18%	8,200	8,042		113	7,929	2030	118
1998 Series (Volente)—5.00% to 5.63%	10,850	10,630		135	10,495	2031	150
1998 Series (Dallas—Oxford Rldg.)—7.25%	10,300	10,300			10,300	2018	
1998 Series (Greens)—5.2% to 6.03%	13,500	13,280		150	13,130	2030	190
1999 Series (Mayfield)—5.7% to 7.25%	11,445	11,295		158	11,137	2031	167
1999 Series (Woodglen Village)—7.38% to 8.25%	10,660	10,653		46	10,607	2039	49
2000 Series (Timber Point)—variable rate	8,100	8,100			8,100	2032	200
2000 Series (Oaks @ Hampton)—7.20% to 9.00%	10,060	10,041		48	9,993	2040	52
2000 Series (Deerwood)—5.25% to 6.40%	6,435	6,435		40	6,395	2032	75
2000 Series (Creek Point)—variable rate	7,200	7,200			7,200	2032	100
2000 Series A/B (Parks @ Westmoreland)—7.20% to 9.00%	9,990	9,986		47	9,939	2040	51
2000 Series (Honeycreek)—7.63% to 8.15%	20,485	20,485			20,485	2035	9
2000 MF Series A-C (Highland Meadow Apts)—6.75% to 8%	13,500	13,500			13,500	2033	145
2000 MF Series A/B (Greenbridge)—7.4% to 10%	20,085	20,085		38	20,047	2040	75
2000 MF Series A-C (Collingham Park)—6.72% to 7.72%	13,500	13,500			13,500	2,033	72
2000 MF Series A/B (Williams Run)—7.65% to 9.25%	12,850	12,767		96	12,671	2040	67

(Continued)

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
2000 MF Series A/B (Red Hills Villas) - 8.4% to 9.5%	\$10,300	\$ 10,300	\$ -	\$ 28	\$ 10,272	2040	\$ 40
2001 MF Series (Bluffview Senior Apts)—7.65%	10,700	10,700		14	10,686	2041	44
2001 MF Series (Knollwood Villas Apts)—7.65%	13,750	13,750		18	13,732	2041	56
2001 MF Series (Skyway Villas)—6.0% to 6.5%	13,250	13,250			13,250	2034	
2001 MF Series A/B (Cobb Park)—6.77%	7,785	7,785		2	7,783	2041	29
2001 MF Series A (Greens Road Apts)—5.3% to 5.4%	8,375	8,375			8,375	2034	
2001 MF Series A (Meridian Apts)—5.45% to 6.85%	14,310	14,310			14,310	2034	
2001 MF Series A (Wildwood Apts)—5.45% to 6.75%	14,365	14,365			14,365	2034	
2001 MF Series A-C (Fallbrook Apts)—6.06% to 6.78%	14,700	14,700			14,700	2034	
2001 MF Series A (Oak Hollow Apts)—7.0% to 7.9%	8,625	8,625			8,625	2041	30
2001 MF Series A/B (Hillside Apts)—7.0% to 9.25%	12,900	12,900			12,900	2041	39
2002 MF Series A (Millstone Apts)—5.35% to 5.86%	12,700	12,700			12,700	2035	
2002 MF Series A (Sugar Creek Apts)—6.0%	11,950	11,950			11,950	2042	30
2002 MF Series A (West Oaks Apts)—7.15% to 7.5%	10,150	10,150			10,150	2042	30
2002 MF Series A (Park Meadows Apts)—6.53%	4,600	4,600			4,600	2034	
2002 MF Series A (Clarkridge Villas Apts)—7.0%	14,600		14,600		14,600	2042	
2002 MF Series A (Hickory Trace Apts)—7.0%	11,920		11,920		11,920	2042	
2002 MF Series A (Green Crest Apts)—7.0%	12,500		12,500		12,500	2042	
2002 MF Series A/B (Ironwood Crossing)—5.5% to 8.75%	16,970		16,970		16,970	2042	
2002 MF Series A/B (Woodway Village Apts)—4.9% to 5.2%	9,100		9,100		9,100	2023	
2003 MF Series A/B (Reading Road Apts)—Variable not to exceed 12%	12,200		12,200		12,200	2036	
2003 MF Series A/B (North Vista Apts)—4.1% to 5.41%	14,000		14,000		14,000	2036	
2003 MF Series A/B (West Virginia Apts)—4.15% to 5.41%	9,450		9,450		9,450	2036	
2003 MF Series A/B (Sphinx @ Murdeaux)—3.55% to 5.0%	15,085		15,085		15,085	2042	
2003 MF Series A/B (Primrose Houston School)—5.5% to 8.0%	16,900		16,900		16,900	2036	
2003 MF Series A/B (Timber Oaks Apts)—6.75 to 8.75%	13,200		13,200		13,200	2043	

(Continued)

	Original Face Amount	Balance September 1, 2002	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2003	Final Maturity Date	Amounts Due Within One Year
2003 MF Series A/B (Ash Creek Apts)—5.6% to 15.0%	\$16,375	\$ -	\$ 16,375	\$ -	\$ 16,375	2036	\$ -
2003 MF Series A/B (Peninsula Apts)—4.25 to 5.3%	12,400		12,400		12,400	2024	
2003 MF Series A/B (Evergreen @ Mesquite) 6.6% to 8.0%	11,000		11,000		11,000	2043	
Total principal amount		509,942	<u>\$185,700</u>	\$ 1,718	588,046		
Unamortized discount		(451)			(435)		
Total multifamily		<u>509,491</u>			<u>587,611</u>		
Total		<u>\$ 1,606,799</u>			<u>\$1,733,369</u>		

(Concluded)

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

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

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

The trust indentures contain positive and negative covenants. Events of default include failure to make timely payment of both principal and interest on any outstanding bond; failure to make timely payment of any other monies required to be paid to the trustee; and nonperformance or nonobservance of any other covenants, agreements or conditions contained in the indentures. Management believes that it is in compliance with the covenants of the indentures.

Bond contractual maturities (principal only) at August 31, 2003 are as follows (in thousands):

Description	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2018
Single-family	\$ 2,870	\$ 4,385	\$ 4,585	\$ 4,920	\$ 5,285	\$ 23,905	\$ 81,135
RMRB	6,545	20,040	8,400	8,775	9,195	42,865	54,290
CHMRB							90
Multifamily	<u>3,351</u>	<u>4,742</u>	<u>5,520</u>	<u>6,623</u>	<u>9,113</u>	<u>43,990</u>	<u>71,607</u>
Total	<u>\$ 12,766</u>	<u>\$ 29,167</u>	<u>\$ 18,505</u>	<u>\$ 20,318</u>	<u>\$ 23,593</u>	<u>\$ 110,760</u>	<u>\$ 207,122</u>

Description	2019 to 2023	2024 to 2028	2029 to 2033	2034 to 2038	2039 to 2043	Total
Single-family	\$ 29,620	\$ 92,630	\$ 165,200	\$ 5,035	\$ -	\$ 419,570
RMRB	82,185	53,925	236,830	6,115		529,165
CHMRB		91,100				91,190
Multifamily	<u>104,468</u>	<u>147,152</u>	<u>118,217</u>	<u>98,063</u>	<u>80,136</u>	<u>692,982</u>
Total	<u>\$216,273</u>	<u>\$384,807</u>	<u>\$520,247</u>	<u>\$109,213</u>	<u>\$80,136</u>	<u>\$ 1,732,907</u>

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

Bond maturities (principal and interest) at August 31, 2003 are as follows (in thousands):

Description	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2018
Single-family	\$ 27,407	\$ 28,752	\$ 28,745	\$ 28,852	\$ 28,956	\$ 138,188	\$ 181,451
RMRB	35,117	48,201	35,637	35,642	35,662	168,922	170,880
CHMRB	6,073	6,073	6,073	6,073	6,073	30,365	30,434
Multifamily	<u>56,145</u>	<u>57,830</u>	<u>58,195</u>	<u>59,167</u>	<u>60,458</u>	<u>292,648</u>	<u>294,200</u>
Total	<u>\$124,742</u>	<u>\$140,856</u>	<u>\$128,650</u>	<u>\$129,734</u>	<u>\$131,149</u>	<u>\$ 630,123</u>	<u>\$ 676,965</u>

Description	2019 to 2023	2024 to 2028	2029 to 2033	2034 to 2038	2039 to 2043	Total
Single-family	\$111,380	\$161,421	\$175,546	\$ 5,046	\$ -	\$ 915,744
RMRB	177,422	129,340	280,595	6,280		1,123,698
CHMRB	30,335	102,929				224,428
Multifamily	<u>294,430</u>	<u>285,109</u>	<u>204,617</u>	<u>143,246</u>	<u>94,476</u>	<u>1,900,521</u>
Total	<u>\$613,567</u>	<u>\$678,799</u>	<u>\$660,758</u>	<u>\$154,572</u>	<u>\$ 94,476</u>	<u>\$4,164,391</u>

Deferred issuance costs at August 31, 2003 consist of the following (in thousands):

Deferred issuance costs	\$ 31,021
Less accumulated amortization	<u>(19,642)</u>
	<u>\$ 11,379</u>

7. EMPLOYEE BENEFITS

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

Funding Policy—Under provisions in State law, plan members are required to contribute 6% of their annual covered salary, and the Department contributes an amount equal to 6% of the Department’s covered payroll. The Department and the employees’ contributions to the System for the years ending August 31, 2003, 2002 and 2001 were \$882,122, \$891,391 and \$788,309, respectively, equal to the required contributions for each year.

8. SEGMENT FINANCIAL DATA

Segment financial data of the Program’s direct-debt activities at August 31, 2003 and for the year then ended are follows (in thousands):

	Single-Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Single-Family CHMRB Series 1993 Funds	Single-Family CHMRB 1994 and 1995 Funds	Combined Totals
CONDENSED STATEMENT OF NET ASSETS:						
Restricted assets:						
Current assets	\$ 71,617	\$ 72,885	\$ 693	\$ 2,077	\$ 1,062	\$ 77,618
Other assets	<u>420,470</u>	<u>486,694</u>	<u>45,699</u>	<u>17,382</u>	<u>32,963</u>	<u>1,139,169</u>
Total assets	<u>492,087</u>	<u>559,579</u>	<u>46,392</u>	<u>19,459</u>	<u>34,025</u>	1,216,787
Liabilities:						
Current liabilities	18,951	15,841	999	99	182	33,481
Long-term liabilities	<u>414,598</u>	<u>526,275</u>	<u>43,202</u>	<u>17,970</u>	<u>31,020</u>	<u>1,091,165</u>
Total liabilities	<u>433,549</u>	<u>542,116</u>	<u>44,201</u>	<u>18,069</u>	<u>31,202</u>	<u>1,124,646</u>
NET ASSETS—Restricted net assets	<u>\$ 58,538</u>	<u>\$ 17,463</u>	<u>\$ 2,191</u>	<u>\$ 1,390</u>	<u>\$ 2,823</u>	<u>\$ 92,141</u>

	Single-Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Single-Family CHMRB Series 1993 Funds	Single-Family CHMRB 1994 and 1995 Funds	Combined Totals
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:						
Operating revenues:						
Interest and investment income	\$ 27,194	\$ 26,149	\$ 3,738	\$ 1,536	\$ 2,944	\$ 71,200
Net increase (decrease) in fair value	(2,195)	(3,039)	55	(313)	(702)	24,642
Other operating revenues	868	883	82			1,876
Operating expenses	(27,005)	(27,973)	(3,644)	(1,481)	(2,672)	67,176
Depreciation and amortization	(286)	(241)	(10)	(8)	(9)	520
Operating income (loss)	(1,424)	(4,221)	221	(266)	(439)	30,023
Non-operating revenues (expenses)— other non-operating revenues (expenses):						
Special and extraordinary items	(1,294)	(742)	244	(66)	(99)	(1,858)
Transfers out	(1,111)	(392)	(12)	(35)	(100)	(2,311)
Change in net assets	(3,829)	(5,355)	453	(367)	(638)	26,604
Net assets—September 1, 2001	<u>62,367</u>	<u>22,818</u>	<u>1,738</u>	<u>1,757</u>	<u>3,461</u>	<u>65,537</u>
Net assets—August 31, 2002	<u>\$ 58,538</u>	<u>\$ 17,463</u>	<u>\$ 2,191</u>	<u>\$ 1,390</u>	<u>\$ 2,823</u>	<u>\$ 92,141</u>
CONDENSED STATEMENT OF CASH FLOWS:						
Net cash provided by (used in):						
Operating activities	\$ 30,563	\$ 2,120	\$ (82)	\$ (12)	\$ (17)	\$ 29,775
Noncapital financing activities	(106,689)	37,827	(19,590)	(10,161)	(22,699)	(7,805)
Investing activities	111,717	(30,313)	19,679	11,119	22,841	(68,126)
Cash and cash equivalents— September 1, 2002	<u>30,015</u>	<u>4,853</u>	<u>443</u>	<u>1,038</u>	<u>763</u>	<u>83,269</u>
Cash and cash equivalents— August 31, 2003	<u>\$ 65,606</u>	<u>\$ 14,487</u>	<u>\$ 450</u>	<u>\$ 1,984</u>	<u>\$ 888</u>	<u>\$ 37,113</u>

9. COMMITMENTS AND CONTINGENCIES

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

10. RISK FINANCING AND RELATED INSURANCE ISSUES

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; efforts and omissions; and natural disasters. It is the Department's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. Currently, there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities. The Department carries Public Official Liabilities Insurance coverage in the amount of \$10,000,000, errors and omissions insurance of \$350,000 related to loan servicing for others and a \$300,000 public employee fidelity bond.

11. RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS

During the 2003 fiscal year, one adjustment was made that required the restatement of the amounts in fund equity, as shown and discussed below:

Fund equity at August 31, 2002	\$ 104,771,844
Restatements:	
Correction of error in the financial statements of a prior period	<u>(1,099)</u>
Net assets at September 1, 2002—as restated	<u>\$ 104,770,745</u>

12. SUBSEQUENT EVENTS

On October 31, 2003, the Department issued \$17,100,000 in multifamily revenue bonds (Arlington Villas Apartments), made up as follows:

\$ 15,000,000	MF 2003 Series A
\$ 2,100,000	MF 2003 Series B

The multifamily bonds were issued for the primary purpose of financing the acquisition, construction and equipping of multifamily residential rental development. Arlington Villas will be located in Arlington, Texas.

* * * * *

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

SCHEDULE 1

**SUPPLEMENTAL SCHEDULE—STATEMENT OF NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY
AUGUST 31, 2003**

ASSETS	Single- Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
CURRENT ASSETS:									
Cash and cash equivalents:									
Cash on hand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 200
Cash in bank								90,388	90,388
Cash in state treasury								1,263,371	1,263,371
Cash equivalents								9,838,047	9,838,047
Restricted assets:									
Cash and cash equivalents:									
Cash in bank	169,740	91,733		620,529	1	2	22,168		904,173
Cash equivalents	65,435,863	14,394,888	449,879	81,163,701	1,984,277	888,316	171,909		164,488,833
Short-term investments		55,651,004		8,636,197			61,470,000		125,757,201
Loans and contracts	3,916,394	110,273		3,032,000					7,149,873
Interest receivable	2,090,595	2,634,056	243,438	4,607,569	92,845	173,541	129,939	91,206	9,971,983
Receivable:									
Interest receivable								14,788	14,788
Consumable inventories								11,308	11,308
Other current assets	4,646	3,300		467,414				64,861	540,218
Total current assets	<u>71,617,238</u>	<u>72,885,254</u>	<u>693,317</u>	<u>98,527,410</u>	<u>2,077,123</u>	<u>1,061,856</u>	<u>61,794,016</u>	<u>11,374,169</u>	<u>320,030,383</u>
NONCURRENT ASSETS:									
Other receivables									
Capital assets:									
Nondepreciable:									
Other capital assets								3,273	3,273
Depreciable:									
Furniture and equipment									
Less accumulated depreciation								1,238,404	1,238,404
Restricted assets:									
Investments	348,083,544	478,844,461	45,331,023	81,703,404	17,243,140	32,805,295			1,004,010,867
Loans, contracts and notes receivable	66,649,866	2,839,385		688,802,910				2,508,512	760,800,673
Other noncurrent assets:									
Deferred issuance cost—net	4,988,102	5,002,032	368,151	723,919	139,257	157,860			11,379,321
Real estate owned—net	748,225	8,135							756,360
Total noncurrent assets	<u>420,469,737</u>	<u>486,694,013</u>	<u>45,699,174</u>	<u>771,230,233</u>	<u>17,382,397</u>	<u>32,963,155</u>	<u>-</u>	<u>2,779,642</u>	<u>1,777,218,351</u>
TOTAL ASSETS	<u>\$492,086,975</u>	<u>\$559,579,267</u>	<u>\$46,392,491</u>	<u>\$869,757,643</u>	<u>\$19,459,520</u>	<u>\$34,025,011</u>	<u>\$61,794,016</u>	<u>\$14,153,811</u>	<u>\$2,097,248,734</u>

(Continued)

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

SCHEDULE 1

**SUPPLEMENTAL SCHEDULE—STATEMENT OF NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY
AUGUST 31, 2003**

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
LIABILITIES									
CURRENT LIABILITIES:									
Payables:									
Accounts payable	\$ 61,015	\$ 16,076	\$ 833	\$ 691	\$ -	\$ -	\$ -	\$ 256,044	\$ 334,659
Accrued bond interest payable	12,313,719	4,295,056	143,589	6,173,627	97,428	169,346	124,265	291,387	23,317,030
Due to other funds									291,387
Due to other agencies	2,041,671	2,039,040	854,335					407,057	4,935,046
Deferred revenues									407,057
Employee's compensable leave									61,470,000
Notes and loans payable	2,870,000	6,545,000		3,351,000					12,766,000
Revenue bonds payable	1,665,054	2,945,583		(3,167)	1,976	12,944	171,909	37,424	4,831,723
Other current liabilities									
Total current liabilities	<u>18,951,459</u>	<u>15,840,755</u>	<u>998,757</u>	<u>9,522,151</u>	<u>99,404</u>	<u>182,290</u>	<u>61,766,174</u>	<u>991,912</u>	<u>108,352,902</u>
NONCURRENT LIABILITIES:									
Employee's compensable leave								110,097	110,097
Revenue bonds payable	414,597,907	524,615,220	43,202,828	689,196,765	17,970,000	31,020,000			1,720,602,720
Other noncurrent liabilities		1,660,446		169,406,583				47,418	171,114,447
Total noncurrent liabilities	<u>414,597,907</u>	<u>526,275,666</u>	<u>43,202,828</u>	<u>858,603,348</u>	<u>17,970,000</u>	<u>31,020,000</u>		<u>157,515</u>	<u>1,891,827,264</u>
TOTAL LIABILITIES	<u>\$433,549,366</u>	<u>\$542,116,421</u>	<u>\$44,201,585</u>	<u>\$868,125,499</u>	<u>\$18,069,404</u>	<u>\$31,202,290</u>	<u>\$61,766,174</u>	<u>\$ 1,149,427</u>	<u>\$2,000,180,166</u>
NET ASSETS									
INVESTED IN CAPITAL ASSETS—									
Net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 271,130	\$ 271,130
RESTRICTED	58,537,609	17,462,846	2,190,906	1,632,144	1,390,116	2,822,721	27,842	12,733,254	84,064,184
UNRESTRICTED									12,733,254
TOTAL NET ASSETS	<u>\$ 58,537,609</u>	<u>\$ 17,462,846</u>	<u>\$ 2,190,906</u>	<u>\$ 1,632,144</u>	<u>\$ 1,390,116</u>	<u>\$ 2,822,721</u>	<u>\$ 27,842</u>	<u>\$13,004,384</u>	<u>\$ 97,068,568</u>

See accompanying independent auditors' report.

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—
REVENUE BOND PROGRAM

SCHEDULE 2

SUPPLEMENTAL SCHEDULE—STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION BY INDIVIDUAL ACTIVITY
YEAR ENDED AUGUST 31, 2003

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	1993 CHMRB Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
OPERATING REVENUES:									
Interest and investment income	\$27,194,310	\$26,148,954	\$3,738,412	\$36,750,496	\$1,535,735	\$2,943,695	\$418,867	\$ 222,402	\$ 98,952,871
Net increase (decrease) in fair value	(2,195,483)	(3,039,119)	53,791	841,443	(312,633)	(702,300)		1,632,663	(6,195,744)
Other operating revenues	868,437	883,776	82,314						4,308,633
Total operating revenues	25,867,264	23,993,611	3,874,517	37,591,939	1,223,102	2,241,395	418,867	1,855,065	97,065,760
OPERATING EXPENSES:									
Salaries and wages								3,279,480	3,279,480
Payroll related costs								987,588	987,588
Professional fees and services	14,555	22,500	4,500		5,000	3,000	40,026		343,399
Travel								79,749	79,749
Materials and supplies								153,195	153,195
Communications and utilities								93,357	93,357
Repairs and maintenance								110,744	110,744
Rentals and leases								538,687	538,687
Printing and reproduction	285,970	241,367	9,853	14,963	7,609	8,598		30,639	30,639
Depreciation and amortization	26,227,111	26,926,617	3,562,302	36,727,084	1,469,053	2,656,188	384,265	85,757	654,117
Interest									97,952,620
Claims and losses									
Other operating expenses	763,259	1,024,057	77,010	4,918	7,125	12,939	5,376	454,068	2,348,752
Total operating expenses	27,290,895	28,214,541	3,653,665	36,746,965	1,488,787	2,680,725	429,667	6,067,082	106,572,327
OPERATING INCOME (LOSS)	(1,423,631)	(4,220,930)	220,852	844,974	(265,685)	(439,330)	(10,800)	(4,212,017)	(9,506,567)
NON-OPERATING REVENUES (EXPENSES):									
Gain (loss) on sale of investments									
Total non-operating revenues (expenses)	(1,294,615)	(741,876)	243,982	(595,075)	(66,123)	(99,394)	28,902	5,978,274	(1,958,026)
Income (loss) before other revenues, expenses, gains, losses and transfers	(1,111,381)	(392,071)	(11,527)		(35,279)	(99,427)			3,762,416
OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS:									
Extraordinary items									
Transfers in (out)	(3,829,627)	(5,354,877)	453,307	249,899	(367,087)	(638,151)	18,102	1,766,257	(7,702,177)
CHANGE IN NET ASSETS	62,367,236	22,817,723	1,737,599	1,382,245	1,757,203	3,460,872	9,740	11,239,226	104,771,844
Restatements								(1,099)	(1,099)
NET ASSETS—September 1, 2002	62,367,236	22,817,723	1,737,599	1,382,245	1,757,203	3,460,872	9,740	11,238,127	104,770,745
NET ASSETS—August 31, 2003	\$58,537,609	\$17,462,846	\$2,190,906	\$ 1,632,144	\$1,390,116	\$2,822,721	\$ 27,842	\$13,004,384	\$ 97,068,568

(Concluded)

See accompanying independent auditors' report.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS—
REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AUGUST 31, 2003
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1991 Single Family Series A	81,605	4.80%	7.15%	1992	2012	09/01/2001
1995 Single Family Series A	85,760	4.15%	6.15%	1997	2027	09/01/2005
1995 Single Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/2005
1996 Single Family Series A	15,000	4.50%	6.30%	2001	2028	09/01/2006
1996 Single Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/2006
1996 Single Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/2006
1996 Single Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/2006
1996 Single Family Series E	98,730	3.90%	6.00%	1997	2017	09/01/2006
1997 Single Family Series A	44,465	5.25%	5.80%	2013	2029	09/01/2007
1997 Single Family Series B	9,510	5.45%	5.45%	2019	2019	09/01/2007
1997 Single Family Series C	25,525	6.80%	6.80%	2029	2029	09/01/2007
1997 Single Family Series D	44,795	5.65%	5.70%	2029	2029	09/01/2007
1997 Single Family Series F	20,000	6.77%	6.77%	2029	2029	09/01/2007
2002 Single Family Series A Junior Lien	10,000	7.01%	7.01%	2025	2026	09/01/2012
2002 Single Family Series A	38,750	5.45%	5.55%	2023	2034	03/01/2012
2002 Single Family Series B	52,695	5.35%	5.55%	2033	2033	03/01/2012
2002 Single Family Series C	12,950	2.80%	5.20%	2004	2017	03/01/2012
2002 Single Family Series D	13,605	2.00%	4.50%	2003	2012	03/01/2012
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/1999
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/2004
1998 RMRB Series A	102,055	4.05%	5.35%	2002	2031	01/01/2009
1998 RMRB Series B	14,300	5.30%	5.30%	2022	2022	01/01/2009
1999 RMRB Series A	25,615	4.80%	5.50%	2018	2021	01/01/2009
1999 RMRB Series B-1	52,260	6.32%	7.10%	2021	2032	07/01/2009
1999 RMRB Series B-2 (COBs)	50,000	3.90%	3.90%	2033	2033	05/01/2000
1999 RMRB Series C	12,150	5.05%	6.25%	2003	2024	07/01/2009
1999 RMRB Series D	26,355	4.30%	6.25%	2000	2021	07/01/2009
2000 RMRB Series A	50,000	5.10%	6.30%	2003	2031	07/01/2010
2000 RMRB Series B	82,975	5.70%	5.70%	2005	2033	07/01/2010
2000 RMRB Series C	13,675	5.82%	5.85%	2011	2025	07/01/2010
2000 RMRB Series D	18,265	4.55%	5.85%	2003	2020	07/01/2010
2000 RMRB Series E	10,000	7.45%	7.45%	2033	2033	07/01/2010
2001 RMRB Series A	52,715	3.15%	5.70%	2004	2033	07/01/2011
2001 RMRB Series B	15,585	5.00%	5.25%	2011	2022	07/01/2011
2001 RMRB Series C	32,225	2.55%	4.63%	2003	2015	07/01/2011
2001 RMRB Series D	300	5.35%	5.35%	2008	2033	07/01/2011
2002 RMRB Series A	42,310	2.25%	5.35%	2004	2034	07/01/2012
2002 RMRB Series B	74,655	1.25%	1.25%	2035	2035	10/01/2003
2003 RMRB Series A	73,630	1.70%	5.00%	2005	2034	01/01/2013
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.13%	2023	2023	05/04/1995
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2023	05/04/1995
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2024	2024	05/04/1995
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/2004
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/2005
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/2005
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/2005
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/2005
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/2005
TOTAL SINGLE FAMILY AND RMRB BONDS	\$1,860,790					

(Continued)

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

SCHEDULE 3

**MISCELLANEOUS BOND INFORMATION
AUGUST 31, 2003
(Amounts in thousands)**

Description of Issue	Original Principal Bonds Issued to Date	Range of		Schedule Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1984 MF Private Placement (Summerbend)	10,100	(a)		1985	2022	09/01/1986
1987 South Texas Rental Housing	1,400	9.50%		1988	2012	02/01/1988
1993 MF Series A&B(RemHill/HighPt Ref)	26,370	(weekly rates)		2023	2023	02/01/2000
1993 Res Ren Project Revenue Bonds	16,775	3.30%		1994	2024	01/01/2004
1996 MF Series A/B (Brighton's Mark)	10,174	6.13%		2026	2026	01/01/2003
1996 MF Series A/B (Las Colinas)	15,469	5.65%		2026	2026	01/01/2003
1996 MF Series A/B (Braxton's Mark)	14,867	5.81%		2026	2026	01/01/2003
1996 MF Series A-D (DFW Pool)	22,150	6.00%		1997	2026	07/01/2006
1996 MF Series A-D (Harbors/Plumtree)	13,050	5.90%		1997	2026	07/01/2006
1996 MF Series A/B (NHP Foundation)	27,560	5.50%		1997	2027	07/01/2007
1997 MF Series (Meadow Ridge)	13,575	5.05%		2001	2030	02/01/2001
1998 MF Series (Pebble Brook)	10,900	4.95%		2001	2030	06/01/2001
1998 MF Series A-C (Residence Oaks)	8,200	5.98%		2001	2030	05/01/2001
1998 MF Series (Volente Project)	10,850	5.00%		2001	2031	07/01/2001
1998 MF Series (Dallas Oxford Refndg)	10,300	7.25%		2018	2018	01/01/2004
1998 MF Series (Greens of Hickory Trail)	13,500	5.20%		2001	2030	09/01/2008
1999 MF Series (Mayfield)	11,445	5.70%		2001	2031	05/01/2002
1999 MF Series (Woodglen Village)	10,660	7.38%		2002	2039	12/01/2016
2000 MF Series (Timber Point Apts)	8,100	(variable rate)		2003	2032	07/01/2000
2000 MF Series (Oaks at Hampton)	10,060	7.20%		2002	2040	03/01/2017
2000 MF Series (Deerwood Apts)	6,435	5.25%		2003	2032	06/01/2010
2000 MF Series (Creek Point Apts)	7,200	(variable rate)		2004	2032	07/01/2000
2000 MF Series A/B (Parks @ Westmoreland)	9,990	7.20%		2002	2040	07/01/2017
2000 MF Series (Honeycreek)	20,485	7.63%		2004	2035	06/30/2007
2000 MF Series A-C (Highland Meadow Apts)	13,500	6.75%		2004	2033	05/01/2019
2000 MF Series A/B (Greenbridge)	20,085	7.40%		2003	2040	03/01/2014
2000 MF Series A-C (Collingham Park)	13,500	6.72%		2004	2033	05/01/2019
2000 MF Series A/B (Williams Run)	12,850	7.65%		2002	2040	01/01/2011
2000 MF Series A/B (Red Hills Villas)	10,300	8.40%		2003	2040	12/01/2017
2001 MF Series (Bluffview Senior Apts)	10,700	7.65%		2003	2041	05/01/2018
2001 MF Series (Knollwood Villas Apts)	13,750	7.65%		2003	2041	05/01/2018
2001 MF Series (Skyway Villas)	13,250	6.00%		2005	2034	12/01/2011
2001 MF Series A/B (Cobb Park)	7,785	6.77%		2003	2041	07/01/2018
2001 MF Series (Greens Road Apts.)	8,375	5.30%		2004	2034	12/01/2011
2001 MF Series A/B (Meridian Apts.)	14,310	5.45%		2004	2034	12/01/2011
2001 MF Series A/B (Wildwood Apts.)	14,365	5.45%		2004	2034	12/01/2011
2001 MF Series A-C (Fallbrook Apts.)	14,700	6.06%		2005	2034	01/01/2012
2001 MF Series (Oak Hollow Apts.)	8,625	7.00%		2003	2041	11/01/2018
2001 MF Series A/B (Hillside Apts.)	12,900	7.00%		2003	2041	11/01/2018
2002 MF Series (Millstone Apts.)	12,700	5.35%		2005	2035	06/01/2012
2002 MF Series (Sugar Creek Apts.)	11,950	6.00%		2004	2042	01/01/2016
2002 MF Series (West Oaks Apts.)	10,150	7.15%		2004	2042	12/01/2018
2002 MF Series (Park Meadows Apts)	4,600	6.53%		2004	2034	05/01/2012
2002 MF Series (Clarkridge Villas Apts)	14,600	7.00%		2004	2042	08/01/2019
2002 MF Series (Hickory Trace Apts)	11,920	7.00%		2004	2042	12/01/2019
2002 MF Series (Green Crest Apts)	12,500	7.00%		2004	2042	11/01/2019
2002 MF Series A/B (Ironwood Crossing)	16,970	5.50%		2005	2042	10/01/2027
2002 MF Series (Woodway Village Apts)	9,100	4.95%		2006	2023	01/01/2013
2003 MF Series A/B (Reading Road)	12,200	(c)		2007	2036	01/01/2004
2003 MF Series A/B (North Vista Apts)	14,000	4.10%		2006	2036	06/01/2013
2003 MF Series A/B (West Virginia Apts)	9,450	4.15%		2006	2036	06/01/2013
2003 MF Series A/B (Sphinx @ Murdeaux)	15,085	3.55%		2005	2042	06/20/2013
2003 MF Series A/B (Primrose Houston School)	16,900	5.50%		2006	2036	07/01/2003
2003 MF Series A/B (Timber Oaks Apts)	13,200	6.75%		2005	2043	06/01/2020
2003 MF Series A/B (Ash Creek Apts)	16,375	5.60%		2006	2036	10/01/2003
2003 MF Series A/B (Peninsula Apts)	12,400	4.25%		2007	2024	10/01/2013
2003 MF Series A (Evergreen @ Mesquite)	11,000	6.60%		2006	2043	09/01/2020

TOTAL MULTIFAMILY BONDS 723,710

TOTAL BONDS ISSUED \$2,584,500

(Concluded)

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

**NOTES TO SCHEDULE 3
AUGUST 31, 2003**

FOOTNOTES:

- a. Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.
- b. The taxable bonds shall be subject to redemption prior to maturity in whole or any part on any interest payment date after the completion date from the proceeds of an optional prepayment of the loan by the borrower.
- c. Variable rate not to exceed the maximum rate permitted by applicable law, currently 12% per annum.

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

SCHEDULE 4

**CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2003**

Description of Issue	Bonds Outstanding September 1, 2002	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2003	Amounts Due Within One Year
1991 Single Family Series A	\$ 13,605,000			\$ 13,605,000		
1995 Single Family Series A	66,760,000			11,990,000	\$ 54,770,000	
1995 Single Family Series C	32,595,000			12,110,000	20,485,000	
1996 Single Family Series A	9,975,000				9,975,000	
1996 Single Family Series B	15,465,000			6,255,000	9,210,000	
1996 Single Family Series D	56,820,000			9,135,000	47,685,000	
1996 Single Family Series E	51,835,000		\$2,180,000	9,085,000	40,570,000	\$ 1,940,000
1997 Single Family Series A	42,865,000			775,000	42,090,000	
1997 Single Family Series B	9,510,000				9,510,000	
1997 Single Family Series C	15,310,000			3,875,000	11,435,000	
1997 Single Family Series D	41,755,000			5,000,000	36,755,000	
1997 Single Family Series F	13,680,000			2,845,000	10,835,000	
2002 Single Family Series A Junior Lien	10,000,000				10,000,000	
2002 Single Family Series A	38,750,000				38,750,000	
2002 Single Family Series B	52,695,000				52,695,000	
2002 Single Family Series C	12,950,000				12,950,000	
2002 Single Family Series D	13,605,000			1,750,000	11,855,000	930,000
1989 RMRB Series A	40,000			40,000		
1989 RMRB Series B	45,000			45,000		
1998 RMRB Series A	90,625,000		1,825,000	6,620,000	82,180,000	1,850,000
1998 RMRB Series B	13,560,000			450,000	13,110,000	
1999 RMRB Series A	16,370,000			3,770,000	12,600,000	
1999 RMRB Series B-1	49,520,000			2,070,000	47,450,000	
1999 RMRB Series C	12,150,000		95,000	90,000	11,965,000	110,000
1999 RMRB Series D	12,540,000		265,000	11,900,000	375,000	
2000 RMRB Series A	46,210,000		505,000	7,040,000	38,665,000	460,000
2000 RMRB Series B	81,955,000			3,180,000	78,775,000	
2000 RMRB Series C	13,425,000			635,000	12,790,000	
2000 RMRB Series D	17,815,000		395,000	1,150,000	16,270,000	835,000
2000 RMRB Series E	9,215,000			3,340,000	5,875,000	
2001 RMRB Series A	52,715,000			1,465,000	51,250,000	805,000
2001 RMRB Series B	15,585,000			520,000	15,065,000	
2001 RMRB Series C	32,225,000		1,795,000	3,805,000	26,625,000	1,820,000
2001 RMRB Series D	300,000			65,000	235,000	
2002 RMRB Series A		\$ 42,310,000		5,000	42,305,000	665,000
2002 RMRB Series B		74,655,000		74,655,000		
2003 RMRB Series A		73,630,000				
1992 Coll Home Mtg Rev Bds Series C	58,300,000			16,100,000	42,200,000	
1993 SF MRB CHMRB Series A	5,585,000			1,495,000	4,090,000	
1993 SF MRB CHMRB Series B	6,760,000			2,105,000	4,655,000	
1993 SF MRB CHMRB Series C	7,735,000			2,985,000	4,750,000	
1993 SF MRB CHMRB Series D	3,440,000			1,005,000	2,435,000	
1993 SF MRB CHMRB Series E	3,060,000			1,020,000	2,040,000	
1994 SF MRB CHMRB Series A	20,860,000			8,505,000	12,355,000	
1994 SF MRB CHMRB Series B	19,330,000			6,490,000	12,840,000	
1994 SF MRB CHMRB Series C	9,985,000			4,250,000	5,735,000	
1995 SF MRRB CHMRB Series A	680,000			590,000	90,000	
Total Single Family Bonds	\$1,098,205,000	\$ 190,595,000	\$7,060,000	\$241,815,000	\$1,039,925,000	\$ 9,415,000
1984 MF Private Placement (Summerbend)	\$ 8,120,000				\$ 8,120,000	
1987 MF Series (South Texas Rental Housing)	963,910		\$ 57,677		906,233	\$ 63,000
1993 MF Series A&B (Rem Hill/High Pt)	12,490,000				12,490,000	
1993 MF Res Ren Project Revenue Bonds (NCHM)	14,495,000		350,000		14,145,000	
1996 MF Series A&B (Brighton's Mark)	8,075,000				8,075,000	
1996 MF Series A&B (Marks of Las Colinas)	14,869,512				14,869,512	
1996 MF Series A&B (Braxton's Mark)	14,273,700				14,273,700	
1996 MF Series A-D (Dallas-Ft Worth Pool)	20,555,000		325,000		20,230,000	415,000
1996 MF Series A-D (Harbors/Plumtree)	12,035,000		210,000		11,825,000	225,000
1996 MF Series A&B (NHP Foundation)	25,475,000		460,000		25,015,000	490,000
1997 MF Series (Meadow Ridge Apartments)	13,130,000		180,000		12,950,000	190,000

(Continued)

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

SCHEDULE 4

**CHANGES IN BOND INDEBTEDNESS
AUGUST 31, 2003**

Description of Issue	Bonds Outstanding September 1, 2002	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2003	Amounts Due Within One Year
1998 MF Series (Pebble Brook Apartments)	\$ 10,700,000		\$ 145,000		\$ 10,555,000	\$ 150,000
1998 MF Series A-C (Residence at the Oaks)	8,042,000		113,000		7,929,000	118,000
1998 MF Series (Volente Project)	10,630,000		135,000		10,495,000	150,000
1998 MF Series (Dallas-Oxford Rfdg)	10,300,000				10,300,000	
1998 MF Series A&B (Greens of Hickory Trail)	13,280,000		150,000		13,130,000	190,000
1999 MF Series A-C (Mayfield)	11,295,000		158,000		11,137,000	167,000
1999 MF Series (Woodglen Village)	10,652,724		45,580		10,607,144	49,000
2000 MF Series (Timber Point Apts)	8,100,000				8,100,000	200,000
2000 MF Series (Oaks @ Hampton)	10,041,362		47,680		9,993,682	52,000
2000 MF Series (Deerwood Apts)	6,435,000		40,000		6,395,000	75,000
2000 MF Series (Creek Point Apts)	7,200,000				7,200,000	100,000
2000 MF Series A/B (Parks @ Westmoreland)	9,986,291		46,738		9,939,553	51,000
2000 MF Series (Honeycreek)	20,485,000				20,485,000	9,000
2000 MF Series A-C (Highland Meadow Apts)	13,500,000				13,500,000	145,000
2000 MF Series A/B (Greenbridge)	20,085,000		37,807		20,047,193	75,000
2000 MF Series A-C (Collingham Park)	13,500,000				13,500,000	72,000
2000 MF Series A/B (Williams Run)	12,767,244		56,108	\$ 40,000	12,671,136	67,000
2000 MF Series A/B (Red Hills Villas)	10,300,000		27,858		10,272,142	40,000
2001 MF Series (Bluffview Senior Apts)	10,700,000		13,888		10,686,112	44,000
2001 MF Series (Knollwood Villas Apts)	13,750,000		17,845		13,732,155	56,000
2001 MF Series (Skyway Villas)	13,250,000				13,250,000	
2001 MF Series A/B (Cobb Park)	7,785,000		2,283		7,782,717	29,000
2001 MF Series (Greens Road Apts.)	8,375,000				8,375,000	
2001 MF Series (Meridian Apts.)	14,310,000				14,310,000	
2001 MF Series (Wildwood Apts.)	14,365,000				14,365,000	
2001 MF Series A-C (Fallbrook Apts.)	14,700,000				14,700,000	
2001 MF Series (Oak Hollow Apts.)	8,625,000				8,625,000	30,000
2001 MF Series A/B (Hillside Apts.)	12,900,000				12,900,000	39,000
2002 MF Series (Millstone Apts.)	12,700,000				12,700,000	
2002 MF Series (Sugar Creek Apts.)	11,950,000				11,950,000	30,000
2002 MF Series (West Oaks Apts.)	10,150,000				10,150,000	30,000
2002 MF Series (Park Meadows Apts.)	4,600,000				4,600,000	
2002 MF Series (Clarkridge Villas Apts)		\$ 14,600,000			14,600,000	
2002 MF Series (Hickory Trace Apts)		11,920,000			11,920,000	
2002 MF Series (Green Crest Apts)		12,500,000			12,500,000	
2002 MF Series (Iron Wood Crossing)		16,970,000			16,970,000	
2002 MF Series (Woodway Crossing)		9,100,000			9,100,000	
2003 MF Series (Reading Road)		12,200,000			12,200,000	
2003 MF Series (North Vista Apts)		14,000,000			14,000,000	
2003 MF Series (West Virginia Apts)		9,450,000			9,450,000	
2003 MF Series (Sphinx@Murdeaux)		15,085,000			15,085,000	
2003 MF Series (Primrose Houston)		16,900,000			16,900,000	
2003 MF Series (Timber Oaks Apts)		13,200,000			13,200,000	
2003 MF Series (Ash Creek Apts)		16,375,000			16,375,000	
2003 MF Series (Peninsula Apts)		12,400,000			12,400,000	
2003 MF Series (Evergreen @ Mesquite)		11,000,000			11,000,000	
Total Multi-Family Bonds	509,941,743	185,700,000	2,619,464	40,000	692,982,279	3,351,000
TOTAL BONDS OUTSTANDING	\$1,608,146,743	\$ 376,295,000	\$9,679,464	\$241,855,000	\$1,732,907,279	\$12,766,000

FOOTNOTES:

(a) Bonds outstanding balance at August 31, 2003 does not include unamortized premium or discounts.

Bonds outstanding per schedule	\$1,732,907,279
Unamortized (discount) premium:	
Single-family	1,491,789
RMRB	4,557,655
CHMRB	1,002,828
Multifamily	(434,514)
Unamortized deferred gain (loss) on refunding:	
Single-family	(3,593,882)
RMRB	(2,562,435)

Bonds outstanding per statement of net assets \$1,733,368,720

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

**DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AUGUST 31, 2003
(Amounts in thousands)**

Description		2004	2005	2006	2007	2008
1995 Single Family, Series A	Principal					
1995 Single Family, Series A	Interest	\$ 3,354	\$ 3,354	\$ 3,354	\$ 3,354	\$ 3,354
1995 Single Family, Series C	Principal				145	305
1995 Single Family, Series C	Interest	1,576	1,576	1,576	1,571	1,549
1996 Single Family, Series A	Principal					
1996 Single Family, Series A	Interest	628	628	628	628	628
1996 Single Family, Series B	Principal					
1996 Single Family, Series B	Interest	553	553	553	553	553
1996 Single Family, Series D	Principal					
1996 Single Family, Series D	Interest	2,955	2,955	2,955	2,955	2,955
1996 Single Family, Series E	Principal	1,940	2,010	2,115	2,190	2,275
1996 Single Family, Series E	Interest	2,256	2,153	2,043	1,926	1,802
1997 Single Family, Series A	Principal					
1997 Single Family, Series A	Interest	2,376	2,376	2,376	2,376	2,376
1997 Single Family, Series B	Principal					
1997 Single Family, Series B	Interest	518	518	518	518	518
1997 Single Family, Series C	Principal					
1997 Single Family, Series C	Interest	778	778	778	778	778
1997 Single Family, Series D	Principal					
1997 Single Family, Series D	Interest	2,086	2,086	2,086	2,086	2,086
1997 Single Family, Series F	Principal					
1997 Single Family, Series F	Interest	734	734	734	734	734
2002 Single Family Series A Junior Lien	Principal					
2002 Single Family Series A Junior Lien	Interest	701	701	701	701	701
2002 Single Family Series A	Principal					
2002 Single Family Series A	Interest	2,133	2,133	2,133	2,133	2,133
2002 Single Family Series B	Principal		880	925	980	1,035
2002 Single Family Series B	Interest	2,855	2,826	2,777	2,726	2,672
2002 Single Family Series C	Principal		435	460	485	515
2002 Single Family Series C	Interest	620	608	593	575	555
2002 Single Family Series D	Principal	930	1,060	1,085	1,120	1,155
2002 Single Family Series D	Interest	414	388	355	318	277
Total Single Family Bonds		27,407	28,752	28,745	28,852	28,956
1998 Residential Mtg Revenue Bonds, Series A	Principal	1,850	1,920	2,010	2,095	2,185
1998 Residential Mtg Revenue Bonds, Series A	Interest	4,114	4,033	3,947	3,855	3,757
1998 Residential Mtg Revenue Bonds, Series B	Principal					
1998 Residential Mtg Revenue Bonds, Series B	Interest	695	695	695	695	695
1999 Residential Mtg Revenue Bonds, Series A	Principal					
1999 Residential Mtg Revenue Bonds, Series A	Interest	638	638	638	638	638
1999 Residential Mtg Revenue Bonds, Series B-1	Principal					
1999 Residential Mtg Revenue Bonds, Series B-1	Interest	3,118	3,118	3,118	3,118	3,118
1999 Residential Mtg Revenue Bonds, Series C	Principal	110	125	125	140	155
1999 Residential Mtg Revenue Bonds, Series C	Interest	738	732	725	718	711

SCHEDULE 5

2009-13	2014-18	2019-23	2024-28	2029-33	2034-38	2039-43	Total Required
\$ 16,770	\$ 5,565 16,429	\$ 15,130	\$ 49,205 10,587				\$ 54,770 75,686
1,900	18,135						20,485
7,353	3,819						19,020
				\$ 9,975			9,975
3,140	3,140	3,140	3,151				15,711
	9,210						9,210
2,765	1,930						7,460
		3,140	10,255	34,290			47,685
14,775	14,775	14,348	13,603				72,276
6,235	23,805						40,570
7,449	4,772						22,401
	11,915			30,175			42,090
11,880	8,750	8,750	8,750	1,749			51,759
		9,510					9,510
2,590	2,590	264					8,034
				11,435			11,435
3,890	3,890	3,890	3,890	767			20,217
				36,755			36,755
10,430	10,430	10,430	10,430	1,563			53,713
				10,835			10,835
3,670	3,670	3,670	3,670	722			19,072
			10,000				10,000
3,505	3,505	3,505	1,577				15,597
	990	11,775	12,675	10,870	2,440		38,750
10,665	10,638	8,710	5,078	2,112	11		47,879
5,515	4,210	5,195	10,495	20,865	2,595		52,695
12,440	11,180	9,923	8,055	3,433			58,887
3,750	7,305						12,950
2,366	798						6,115
6,505							11,855
595							2,347
<u>138,188</u>	<u>181,451</u>	<u>111,380</u>	<u>161,421</u>	<u>175,546</u>	<u>5,046</u>	<u>-</u>	<u>915,744</u>
4,700	15,725			51,695			82,180
17,610	17,223	13,235	13,235	4,456			85,465
		13,110					13,110
3,475	3,475	2,434					12,859
	7,905	4,695					12,600
3,190	3,126	598					10,104
		15,275		32,175			47,450
15,590	15,590	13,239	10,165	7,798			77,972
1,010	255		10,045				11,965
3,400	3,153	3,140	522				13,839

(Continued)

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

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)

AUGUST 31, 2003

(Amounts in thousands)

Description		2004	2005	2006	2007	2008
1999 Residential Mtg Revenue Bonds, Series D	Principal					
1999 Residential Mtg Revenue Bonds, Series D	Interest	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23
2000 Residential Mtg Revenue Bonds, Series A	Principal	460	490	520	555	575
2000 Residential Mtg Revenue Bonds, Series A	Interest	2,373	2,349	2,322	2,293	2,261
2000 Residential Mtg Revenue Bonds, Series B	Principal		12,000			
2000 Residential Mtg Revenue Bonds, Series B	Interest	4,575	4,459	3,877	3,877	3,877
2000 Residential Mtg Revenue Bonds, Series C	Principal					
2000 Residential Mtg Revenue Bonds, Series C	Interest	747	747	747	747	747
2000 Residential Mtg Revenue Bonds, Series D	Principal	835	885	935	990	1,065
2000 Residential Mtg Revenue Bonds, Series D	Interest	831	791	748	702	652
2000 Residential Mtg Revenue Bonds, Series E	Principal					
2000 Residential Mtg Revenue Bonds, Series E	Interest	438	438	438	438	438
2001 Residential Mtg Revenue Bonds, Series A	Principal	805	860	915	975	1,035
2001 Residential Mtg Revenue Bonds, Series A	Interest	2,757	2,717	2,673	2,626	2,574
2001 Residential Mtg Revenue Bonds, Series B	Principal					
2001 Residential Mtg Revenue Bonds, Series B	Interest	776	776	776	776	776
2001 Residential Mtg Revenue Bonds, Series C	Principal	1,820	1,880	1,960	2,035	2,125
2001 Residential Mtg Revenue Bonds, Series C	Interest	1,047	989	924	851	770
2001 Residential Mtg Revenue Bonds, Series D	Principal					5
2001 Residential Mtg Revenue Bonds, Series D	Interest	13	13	13	13	13
2002 Residential Mtg Revenue Bonds, Series A	Principal	665	690	720	740	770
2002 Residential Mtg Revenue Bonds, Series A	Interest	2,183	2,155	2,124	2,091	2,057
2003 Residential Mtg Revenue Bonds, Series A	Principal		1,190	1,215	1,245	1,280
2003 Residential Mtg Revenue Bonds, Series A	Interest	<u>3,506</u>	<u>3,488</u>	<u>3,449</u>	<u>3,406</u>	<u>3,360</u>
Total Residential Mtg Revenue Bonds		<u>35,117</u>	<u>48,201</u>	<u>35,637</u>	<u>35,642</u>	<u>35,662</u>
1992 Coll Home Mtg Rev Bonds, Series C	Principal					
1992 Coll Home Mtg Rev Bonds, Series C	Interest	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>
Total Coll Home Mtg Revenue Bonds		<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>
1993 SF MRB CHMRB, Series A	Principal					
1993 SF MRB CHMRB, Series A	Interest	239	239	239	239	239
1993 SF MRB CHMRB, Series B	Principal					
1993 SF MRB CHMRB, Series B	Interest	308	308	308	308	308
1993 SF MRB CHMRB, Series C	Principal					
1993 SF MRB CHMRB, Series C	Interest	317	317	317	317	317
1993 SF MRB CHMRB, Series D	Principal					
1993 SF MRB CHMRB, Series D	Interest	165	165	165	165	165
1993 SF MRB CHMRB, Series E	Principal					
1993 SF MRB CHMRB, Series E	Interest	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>
Total Single Family MRB 1993 CHMRB		<u>1,169</u>	<u>1,169</u>	<u>1,169</u>	<u>1,169</u>	<u>1,169</u>
1994 SF MRB CHMRB, Series A	Principal					
1994 SF MRB CHMRB, Series A	Interest	846	846	846	846	846

SCHEDULE 5

2009-13	2014-18	2019-23	2024-28	2029-33	2034-38	2039-43	Total Required
		\$ 375					\$ 375
\$ 115	\$ 115	73					418
620		8,220		\$ 27,225			38,665
11,056	\$ 11,035	8,716	\$ 8,485	4,721			55,611
				66,775			78,775
19,385	19,385	19,385	19,385	15,845			114,050
		9,115	3,675				12,790
3,735	3,735	2,047	287				13,539
6,450	3,240	1,870					16,270
2,353	741	148					6,966
				5,875			5,875
2,190	2,190	2,190	2,190	1,889			12,839
3,380	2,380	4,935	15,225	20,740			51,250
12,162	11,484	10,672	7,855	3,046			58,566
							15,065
2,810	5,960	6,295					10,765
3,685	2,486	714					
12,470	4,335						26,625
2,401	169						7,151
45	45	45	40	55			235
56	44	31	21	6			223
4,380	5,500	6,905	8,860	11,720	\$ 1,355		42,305
9,684	8,428	6,820	4,782	2,051	25		42,400
7,000	8,945	11,345	16,080	20,570	4,760		73,630
15,970	14,211	11,795	8,488	3,953	140		71,766
<u>168,922</u>	<u>170,880</u>	<u>177,422</u>	<u>129,340</u>	<u>280,595</u>	<u>6,280</u>	<u>-</u>	<u>1,123,698</u>
			42,200				42,200
<u>14,360</u>	<u>14,360</u>	<u>14,360</u>	<u>2,867</u>				<u>60,307</u>
<u>14,360</u>	<u>14,360</u>	<u>14,360</u>	<u>45,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,507</u>
			4,090				4,090
1,195	1,195	1,195	524				5,304
			4,655				4,655
1,540	1,540	1,540	671				6,831
			4,750				4,750
1,585	1,585	1,585	693				7,033
			2,435				2,435
825	825	825	349				3,649
			2,040				2,040
<u>700</u>	<u>700</u>	<u>700</u>	<u>298</u>				<u>3,098</u>
<u>5,845</u>	<u>5,845</u>	<u>5,845</u>	<u>16,415</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,795</u>
			12,355				12,355
4,230	4,230	4,230	2,686				19,606

(Continued)

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

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)

AUGUST 31, 2003

(Amounts in thousands)

Description		2004	2005	2006	2007	2008
1994 SF MRB CHMRB, Series B	Principal					
1994 SF MRB CHMRB, Series B	Interest	\$ 822	\$ 822	\$ 822	\$ 822	\$ 822
1994 SF MRB CHMRB, Series C	Principal					
1994 SF MRB CHMRB, Series C	Interest	358	358	358	358	358
Total Single Family MRB 1994 CHMRB		2,026	2,026	2,026	2,026	2,026
1995 SF MRRB CHMRB, Series A	Principal					
1995 SF MRRB CHMRB, Series A	Interest	6	6	6	6	6
Total Single Family MRB 1995 CHMRB		6	6	6	6	6
1984 MF Private Placement (Summerbend)	Principal					
1984 MF Private Placement (Summerbend)	Interest	735	735	735	735	735
1987 MF Series (South Texas Rental Housing)	Principal	63	70	77	84	93
1987 MF Series (South Texas Rental Housing)	Interest	83	77	70	63	54
1993 MF Series A&B (Rem Hill/High Pt)	Principal					
1993 MF Series A&B (Rem Hill/High Pt)	Interest	500	500	500	500	500
1993 MF Res Ren Project Revenue Bonds (NCHM)	Principal					2,095
1993 MF Res Ren Project Revenue Bonds (NCHM)	Interest	813	813	813	813	813
1996 MF Series A&B (Brighton's Mark)	Principal					
1996 MF Series A&B (Brighton's Mark)	Interest	495	495	495	495	495
1996 MF Series A&B (Marks of Las Colinas)	Principal					
1996 MF Series A&B (Marks of Las Colinas)	Interest	840	840	840	840	840
1996 MF Series A&B (Braxton's Mark)	Principal					
1996 MF Series A&B (Braxton's Mark)	Interest	829	829	829	829	829
1996 MF Series A-D (Dallas-Ft Worth Pool)	Principal	415	405	435	460	495
1996 MF Series A-D (Dallas-Ft Worth Pool)	Interest	1,409	1,384	1,357	1,328	1,295
1996 MF Series A-D (Harbors/Plumtree)	Principal	225	240	255	275	295
1996 MF Series A-D (Harbors/Plumtree)	Interest	821	807	791	774	755
1996 MF Series A&B (NHP Foundation)	Principal	490	525	545	585	615
1996 MF Series A&B (NHP Foundation)	Interest	1,577	1,550	1,519	1,485	1,448
1997 MF Series (Meadow Ridge Apartments)	Principal	190	200	215	225	120
1997 MF Series (Meadow Ridge Apartments)	Interest	711	701	691	680	669
1998 MF Series (Pebble Brook Apartments)	Principal	150	160	170	180	190
1998 MF Series (Pebble Brook Apartments)	Interest	577	570	562	553	544
1998 MF Series A-C (Residence At The Oaks)	Principal	118	128	134	141	151
1998 MF Series A-C (Residence At The Oaks)	Interest	472	464	457	448	440
1998 MF Series (Volente Project)	Principal	150	160	165	175	185
1998 MF Series (Volente Project)	Interest	579	571	563	555	546
1998 MF Series (Dallas-Oxford Rfdg)	Principal					
1998 MF Series (Dallas-Oxford Rfdg)	Interest	747	747	747	747	747
1998 MF Series A&B (Greens Of Hickory Trail)	Principal	190	185	210	220	240
1998 MF Series A&B (Greens Of Hickory Trail)	Interest	703	692	681	668	654
1999 MF Series A-C (Mayfield)	Principal	167	177	187	199	209
1999 MF Series A-C (Mayfield)	Interest	630	620	607	599	587

SCHEDULE 5

2009-13	2014-18	2019-23	2024-28	2029-33	2034-38	2039-43	Total Required
\$ 4,110	\$ 4,110	\$ 4,110	\$ 12,840 2,597				\$ 12,840 19,037
<u>1,790</u>	<u>1,790</u>	<u>1,790</u>	<u>5,735</u> <u>1,144</u>				<u>5,735</u> <u>8,304</u>
<u>10,130</u>	<u>10,130</u>	<u>10,130</u>	<u>25,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,522</u>
	90						90
<u>30</u>	<u>9</u>						<u>69</u>
<u>30</u>	<u>99</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159</u>
		8,120					8,120
3,675	3,675	3,193					14,218
519							906
117							464
		12,490					12,490
2,500	2,500	2,491					9,991
	3,440		8,610				14,145
3,475	2,691	2,495	254				12,980
			8,075				8,075
2,475	2,475	2,475	1,485				11,385
			14,870				14,870
4,200	4,200	4,200	2,523				19,323
			14,274				14,274
4,145	4,145	4,145	2,495				19,075
3,035	4,260	5,995	4,730				20,230
5,902	4,665	2,910	605				20,855
1,790	2,500	3,480	2,765				11,825
3,437	2,718	1,699	356				12,158
3,755	5,115	7,010	6,375				25,015
6,590	5,223	3,335	840				23,567
1,455	2,005			8,540			12,950
3,152	2,681	2,370	2,370	908			14,933
1,145	1,575	2,150	2,960	1,875			10,555
2,559	2,198	1,696	1,002	161			10,422
899				6,358			7,929
2,046	1,905	1,905	1,905	859			10,901
1,135	1,565	2,140	2,955	1,865			10,495
2,560	2,189	1,681	975	142			10,361
	10,300						10,300
3,735	3,735	494					11,699
1,455	2,000	2,710	3,650	2,270			13,130
3,033	2,565	1,964	1,148	178			12,286
1,247	1,653	2,196	2,914	2,188			11,137
2,737	2,325	1,782	1,058	194			11,139

(Continued)

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

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)

AUGUST 31, 2003

(Amounts in thousands)

Description		2004	2005	2006	2007	2008
1999 MF Series (Woodglen Village)	Principal	\$ 49	\$ 53	\$ 57	\$ 61	\$ 66
1999 MF Series (Woodglen Village)	Interest	781	777	773	769	764
2000 MF Series (Timber Point Apts)	Principal	200	100	100	100	100
2000 MF Series (Timber Point Apts)	Interest	4,322	4,268	4,214	4,493	3,745
2000 MF Series A&B (Oaks At Hampton)	Principal	52	57	62	68	75
2000 MF Series A&B (Oaks At Hampton)	Interest	726	721	715	710	703
2000 MF Series (Deerwood Apts)	Principal	75	75	85	85	95
2000 MF Series (Deerwood Apts)	Interest	400	396	392	387	383
2000 MF Series (Creek Point Apts)	Principal	100	100	100	100	100
2000 MF Series (Creek Point Apts)	Interest	3,644	3,605	3,563	3,511	3,460
2000 MF Series (Parks At Westmoreland)	Principal	51	56	61	67	73
2000 MF Series (Parks At Westmoreland)	Interest	845	840	835	829	823
2000 MF Series (Honey Creek)	Principal	9	113	122	131	142
2000 MF Series (Honey Creek)	Interest	1,562	1,557	1,548	1,539	1,529
2000 A/C MF Series (Highland Meadows)	Principal	145	155	165	177	190
2000 A/C MF Series (Highland Meadows)	Interest	914	902	889	875	876
2000 A&B MF Series (Greenbridge)	Principal	75	83	92	119	109
2000 A&B MF Series (Greenbridge)	Interest	1,487	1,479	1,469	1,459	1,451
2000 A/C MF Series (Collingham Park)	Principal	72	151	162	172	182
2000 A/C MF Series (Collingham Park)	Interest	913	902	890	877	864
2000 A&B MF Series (Williams Run)	Principal	67	67	72	78	84
2000 A&B MF Series (Williams Run)	Interest	967	962	956	950	944
2000 A&B MF Series (Red Hills Villas)	Principal	40	44	49	54	59
2000 A&B MF Series (Red Hills Villas)	Interest	865	861	857	852	847
2001a MF Series (Bluffview Sr. Apts.)	Principal	44	47	51	55	59
2001a MF Series (Bluffview Sr. Apts.)	Interest	917	913	909	905	900
2001a MF Series (Knollwood Villas Apts)	Principal	56	61	66	71	77
2001a MF Series (Knollwood Villas Apts)	Interest	1,182	1,179	1,174	1,168	1,162
2001a MF Series (Skyway Villas)	Principal		135	185	195	205
2001a MF Series (Skyway Villas)	Interest	737	734	725	715	705
2001a MF Series (Cobb Park)	Principal	29	32	35	38	42
2001a MF Series (Cobb Park)	Interest	617	614	611	608	604
2001 MF Series (Greens Road Apts.)	Principal		100	105	110	120
2001 MF Series (Greens Road Apts.)	Interest	449	446	441	435	429
2001 MF Series (Meridian Apts.)	Principal		150	165	175	185
2001 MF Series (Meridian Apts.)	Interest	838	833	822	811	799
2001 MF Series (Wildwood Apts.)	Principal		245	170	175	190
2001 MF Series (Wildwood Apts.)	Interest	827	818	807	796	783
2001 A/C MF Series (Fallbrook Apts.)	Principal		86	180	193	206
2001 A/C MF Series (Fallbrook Apts.)	Interest	899	898	887	875	861
2001 MF Series (Oak Hollow Apts.)	Principal	30	43	46	49	53
2001 MF Series (Oak Hollow Apts.)	Interest	680	677	673	670	666
2001 A/B MF Series (Hillside Apts.)	Principal	39	57	63	69	75
2001 A/B MF Series (Hillside Apts.)	Interest	1,023	1,018	1,012	1,006	1,000

SCHEDULE 5

	2009-13	2014-18	2019-23	2024-28	2029-33	2034-38	2039-43	Total Required
\$	412	\$ 596	\$ 860	\$ 1,242	\$ 1,795	\$ 2,593	\$ 2,823	\$ 10,607
	3,736	3,552	3,287	2,905	2,353	1,555	235	21,487
	800	1,000	1,500	2,100	2,100			8,100
	19,310	16,881	13,470	8,703	2,269			81,675
	482	693	993	1,422	2,036	2,914	1,140	9,994
	3,407	3,196	2,897	2,468	1,854	974	67	18,438
	435		1,305		4,240			6,395
	1,827	1,770	1,521	1,355	1,223			9,654
	700	900	1,300	1,900	1,900			7,200
	16,369	14,353	11,512	7,501	2,021			69,539
	470	674	965	1,381	1,977	2,829	1,335	9,939
	4,003	3,761	3,419	2,926	2,222	1,215	113	21,831
	895	1,309	1,915	2,800	4,093	8,956		20,485
	7,452	7,033	6,424	5,534	4,231	1,113		39,522
	1,161	1,624	2,270	3,174	4,439			13,500
	4,084	3,617	2,962	2,045	782			17,946
	742	1,074	1,552	2,246	3,246	4,694	6,015	20,047
	7,101	6,768	6,287	5,589	4,582	3,125	725	41,522
	1,215	1,644	2,226	3,037	4,161	478		13,500
	4,362	3,913	3,214	2,262	959	5		19,161
	534	781	1,145	1,676	2,454	3,592	2,121	12,671
	4,608	4,359	3,993	3,459	2,676	1,530	183	25,587
	386	562	812	1,176	1,700	2,458	2,932	10,272
	4,138	3,941	3,655	3,244	2,649	1,788	437	24,134
	374	547	799	1,166	1,704	2,489	3,351	10,686
	4,411	4,216	3,930	3,513	2,905	2,018	589	26,126
	481	704	1,026	1,499	2,191	3,199	4,301	13,732
	5,707	5,475	5,134	4,640	3,916	2,857	895	34,489
	1,205	1,585	2,075	2,740	3,630	1,295		13,250
	3,345	2,965	2,460	1,788	895	54		15,123
	277	404	573	844	1,223	1,768	2,518	7,783
	2,950	2,815	2,622	2,345	1,939	1,355	422	17,502
	730	985	1,340	1,810	2,480	595		8,375
	2,036	1,810	1,505	1,087	512	16		9,166
	1,145	1,620	2,255	3,040	4,090	1,485		14,310
	3,786	3,330	2,717	1,978	998	62		16,974
	1,165	1,635	2,245	3,015	4,055	1,470		14,365
	3,705	3,251	2,684	1,961	991	61		16,684
	1,257	1,704	2,296	3,095	4,170	1,513		14,700
	4,076	3,624	3,026	2,213	1,120	70		18,549
	328	464	659	936	1,323	1,875	2,819	8,625
	3,257	3,102	2,881	2,569	2,127	1,499	518	19,319
	482	682	970	1,373	1,947	2,760	4,383	12,900
	4,884	4,656	4,333	3,874	3,223	2,299	823	29,151

(Continued)

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

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)

AUGUST 31, 2003

(Amounts in thousands)

Description		2004	2005	2006	2007	2008
2002 MF Series (Millstone Apts.)	Principal		\$ 80	\$ 165	\$ 180	\$ 195
2002 MF Series (Millstone Apts.)	Interest	\$ 699	698	690	680	670
2002 MF Series (Sugar Creek Apts.)	Principal	30	65	70	70	80
2002 MF Series (Sugar Creek Apts.)	Interest	717	714	710	705	701
2002 MF Series (West Oaks Apts.)	Principal	30	48	52	56	60
2002 MF Series (West Oaks Apts.)	Interest	760	757	753	749	745
2002 MF Series (Park Meadows Apts.)	Principal		50	55	60	60
2002 MF Series (Park Meadows Apts.)	Interest	300	299	295	292	288
2002 Series (Clarkridge Villas Apts)	Principal		69	74	79	85
2002 Series (Clarkridge Villas Apts)	Interest	1,022	1,019	1,014	1,009	1,003
2002 Series A (Hickory Trace Apts)	Principal		47	60	64	69
2002 Series A (Hickory Trace Apts)	Interest	834	833	829	825	820
2002 Series A (Green Crest Apts)	Principal		49	63	67	72
2002 Series A (Green Crest Apts)	Interest	875	873	869	865	860
2002 Series A/B (Iron Wood Crossing)	Principal			51	67	73
2002 Series A/B (Iron Wood Crossing)	Interest	1,222	1,222	1,220	1,215	1,209
2002 Series A (Woodway Village)	Principal			105	115	125
2002 Series A (Woodway Village)	Interest	469	469	466	461	455
2003 Series A/B (Reading Road)	Principal				120	120
2003 Series A/B (Reading Road)	Interest	600	651	651	650	644
2003 Series A/B (North Vista)	Principal				200	210
2003 Series A/B (North Vista)	Interest	699	699	699	694	685
2003 Series A/B (West Virginia)	Principal				135	145
2003 Series A/B (West Virginia)	Interest	472	472	472	469	463
2003 Series A/B (Sphinx @ Murdeaux)	Principal		70	140	160	165
2003 Series A/B (Sphinx @ Murdeaux)	Interest	1,457	1,982	1,987	1,993	1,998
2003 Series A/B (Primrose Houston)	Principal			11	71	77
2003 Series A/B (Primrose Houston)	Interest	1,164	1,164	1,164	1,161	1,155
2003 Series A/B (Timber Oaks)	Principal		4	47	51	56
2003 Series A/B (Timber Oaks)	Interest	937	937	934	930	925
2003 Series A/B (Ash Creek Apts)	Principal				59	76
2003 Series A/B (Ash Creek Apts)	Interest	1,100	1,100	1,100	1,098	1,092
2003 Series A/B (Peninsula Apts)	Principal				80	160
2004 Series A/B (Peninsula Apts)	Interest	647	647	647	645	639
2003 Series (Evergreen @ Mesquite)	Principal			41	103	110
2003 Series (Evergreen @ Mesquite)	Interest	704	757	756	751	744
Total Multi-Family Bonds		<u>56,145</u>	<u>57,830</u>	<u>58,195</u>	<u>59,167</u>	<u>60,458</u>
Total		<u>124,742</u>	<u>140,856</u>	<u>128,650</u>	<u>129,734</u>	<u>131,149</u>
Less interest		<u>111,976</u>	<u>111,689</u>	<u>110,145</u>	<u>109,416</u>	<u>107,556</u>
Total Principal		<u>\$ 12,766</u>	<u>\$ 29,167</u>	<u>\$ 18,505</u>	<u>\$ 20,318</u>	<u>\$ 23,593</u>

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

SCHEDULE 5

	2009-13	2014-18	2019-23	2024-28	2029-33	2034-38	2039-43	Total Required
\$	1,145	\$ 1,485	\$ 1,940	\$ 2,550	\$ 3,345	\$ 1,615		\$ 12,700
	3,173	2,817	2,352	1,738	926	89		14,532
	490	465					\$10,680	11,950
	3,424	3,257	3,205	3,205	3,205	3,205	2,137	25,185
	371	531	758	1,082	1,547	2,208	3,407	10,150
	3,647	3,478	3,240	2,898	2,408	1,709	609	21,753
	390	525	730	1,005	1,390	335		4,600
	1,368	1,219	1,017	736	348	11		6,173
	526	747	1,058	1,500	2,127	3,014	5,321	14,600
	4,914	4,693	4,380	3,936	3,305	2,412	1,041	29,748
	426	603	853	1,211	1,716	2,432	4,439	11,920
	4,018	3,838	3,585	3,227	2,719	1,999	899	24,426
	446	632	895	1,270	1,799	2,551	4,656	12,500
	4,214	4,026	3,760	3,384	2,851	2,095	943	25,615
	477	737	1,128	1,620	2,295	3,254	7,268	16,970
	5,931	5,668	5,274	4,781	4,100	3,135	1,592	36,569
	740	990	7,025					9,100
	2,173	1,961	1,617					8,071
	940	1,290	1,770	2,375	3,125	2,460		12,200
	3,076	2,788	2,392	1,860	1,139	235		14,686
	1,205	1,550	2,040	2,675	3,500	2,620		14,000
	3,277	2,956	2,504	1,907	1,127	202		15,449
	815	1,040	1,370	1,805	2,375	1,765		9,450
	2,212	1,995	1,692	1,290	762	134		10,433
	935	1,180	1,505	1,900	2,425	3,090	3,515	15,085
	10,112	4,614	2,914	2,509	1,990	1,318	455	33,329
	492	736	1,094	1,556	2,192	10,671		16,900
	5,666	5,423	5,068	4,615	3,987	1,836		32,403
	368	568	879	1,322	1,858	2,601	5,445	13,199
	4,541	4,338	4,024	3,580	3,041	2,294	1,228	27,709
	490	734	1,063	1,488	2,082	10,383		16,375
	5,353	5,111	4,786	4,369	3,783	1,941		30,833
	955	1,275	1,725	8,205				12,400
	3,069	2,794	2,400	453				11,941
	668	919	1,263	1,738	2,391	2,101	1,666	11,000
	3,598	3,339	2,984	2,494	1,820	972	429	19,348
	<u>292,648</u>	<u>294,200</u>	<u>286,310</u>	<u>285,109</u>	<u>204,617</u>	<u>143,246</u>	<u>94,475</u>	<u>1,892,400</u>
	630,123	676,965	613,567	678,799	660,758	154,572	94,476	4,164,391
	<u>519,363</u>	<u>469,843</u>	<u>397,294</u>	<u>293,992</u>	<u>140,511</u>	<u>45,359</u>	<u>14,340</u>	<u>2,431,484</u>
	<u>\$110,760</u>	<u>\$207,122</u>	<u>\$216,273</u>	<u>\$384,807</u>	<u>\$520,247</u>	<u>\$109,213</u>	<u>\$80,136</u>	<u>\$1,732,907</u>

(Concluded)

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

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS

AUGUST 31, 2003

(Amounts in thousands)

Description of Issue	Pledged and Other Sources Related Expenditures for Fiscal Year 2003						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and	
Single Family:							
Series 95A, 95C, 96A/B, 96D/E, 97A-C, 97D/F, 2002A Jr. Lien, 2002A-D	\$ 7,132	\$20,914	\$ 76,425	\$104,471	\$ 17	\$1,064	\$103,424
Residential Mortgage Revenue:							
Series 98A/B, 99A, 99B-D, 2000A-E, 2001A-D, 2002A, 2003A	748	25,828	120,845	147,421	456	1,288	146,590
Coll. Home Mortgage Revenue:							
Series 92C	82	3,738	16,100	19,921		91	19,829
SF MRB CHMRB Series 93A-E		1,536	8,610	10,146		20	10,126
SF MRB CHMRB Series 94A-C		2,753	19,245	21,998		24	21,975
SF MRRB CHMRB Series 95A		191	590	781		1	780
Total Single Family	7,962	54,960	241,815	304,738	473	2,488	302,723
Multifamily:							
84 MF Priv Placement (Summerbend)	397			397	32	1	429
87 MF Series (South Texas)	89	13		102			102
93 MF Series A/B (Remington Hill/High Pt)	153			153	44	5	192
93 MF Series (NCHMP)	823			823	55		878
96 MF Series A/B (Brighton's/Las Colinas)	1,360			1,360	32	6	1,386
96 MF Series A/B (Braxton's Mark)	845			845	19	3	862
96 MF Series A-D (DFW Pool)	1,436			1,436			1,436
96 MF Series A-D (Harbors/Plumtree)	833			833	30		862
96 MF Series A/B (NHP Foundation)	1,599			1,599	65		1,664
97 MF Series (Meadow Ridge)	720			720	28		749
98 MF Series (Pebble Brook)	583			583	27		609
98 MF Series A-C (Residence Oaks)	478			478	17		495
98 MF Series (Volente)	586			586	26		613
98 MF Series (Greens-Hickory Tr.)	709			709	26		735
98 MF Series (Dallas-Oxford)/rdg	747			747	26		773
99 MF Series (Woodglen)	784			784	11		794
99 MF Series (Mayfield Apts.)	640			640	11		651
00 MF Series (Timber Pt Apts)	100			100	8		108
00 MF Series (Oaks at Hampton)	730			730	10		740
00 MF Series (Deerwood Apts)	403			403	6		409
00 MF Series (Creek Pt Apts)	89			89	7		96
00 MF Series A/B (Parks Westmoreld)	725			725	10		735
00 MF Series (Honey Creek)	1,562			1,562	20		1,582
00 MF Series A-C (Highland Meadows)	921			921	14		934
00 MF Series A/B (Greenbridge)	1,494			1,494	20		1,514
00 MF Series A-C (Collingham Pk)	915			915	14		928
00 MF Series A/B (Williams Run)	975		40	1,015	13		1,028
00 MF Series A/B (Red Hills Villa)	770			770	10		780
01 MF Series (Bluffview Apt)	813			813	11		824
01 MF Series (Knollwood Villa)	1,045			1,045	14		1,058
01 MF Series (Skyway Villa)	737			737	13	5	745
01 MF Series A/B (Cobb Park Apt)	591			591	8		599
01 MF Series (Greens Road Apt)	449			449	8		457
01 MF Series A/B (Meridian Apt)	838			838	14		852
01 MF Series A/B (Wildwood Branch)	828			828	14		842
01 MF Series A-C (Fallbrook Apt)	899			899	15		914
01 MF Series (Oak Hollow Apt)	643			643	9		651
01 MF Series A/B (Hillside Apt)	968			968	13		981
01 MF Series (Millstone Apt)	699			699	13		712

SCHEDULE 6

Debt Service			Interest and Sinking Fund		Reserve Fund	
Principal	Interest	Refunded or Extinguished	Minimum	Actual	Minimum	Actual
\$ 2,180	\$ 26,227	\$ 76,425	\$ n/a	\$ n/a	\$ 1,758	\$ 1,779
4,880	26,927	120,845	n/a	n/a		
	3,562	16,100	n/a	n/a	n/a	n/a
	1,469	8,610	n/a	n/a	n/a	n/a
	2,635	19,245	n/a	n/a	n/a	n/a
	21	590	n/a	n/a	n/a	n/a
<u>7,060</u>	<u>60,841</u>	<u>241,815</u>			<u>1,758</u>	<u>1,779</u>
	396		n/a	n/a	n/a	n/a
58	89		n/a	n/a	843	977
	148		n/a	n/a	n/a	n/a
350	823		n/a	n/a	n/a	n/a
	1,354		n/a	n/a	n/a	n/a
	841		n/a	n/a	n/a	n/a
325	1,436		n/a	n/a	n/a	n/a
210	833		n/a	n/a	n/a	n/a
460	1,599		n/a	n/a	n/a	n/a
180	720		n/a	n/a	n/a	n/a
145	583		n/a	n/a	n/a	n/a
113	478		n/a	n/a	n/a	n/a
135	586		n/a	n/a	n/a	n/a
150	709		n/a	n/a	n/a	n/a
	747		n/a	n/a	n/a	n/a
46	784		n/a	n/a	n/a	n/a
158	640		n/a	n/a	n/a	n/a
	100		n/a	n/a	n/a	n/a
48	730		n/a	n/a	n/a	n/a
40	403		n/a	n/a	n/a	n/a
	89		n/a	n/a	n/a	n/a
47	725		n/a	n/a	n/a	n/a
	1,562		n/a	n/a	n/a	n/a
	921		n/a	n/a	n/a	n/a
38	1,494		n/a	n/a	n/a	n/a
	915		n/a	n/a	n/a	n/a
56	975	40	n/a	n/a	n/a	n/a
28	770		n/a	n/a	n/a	n/a
14	813		n/a	n/a	n/a	n/a
18	1,045		n/a	n/a	n/a	n/a
	737		n/a	n/a	n/a	n/a
2	591		n/a	n/a	n/a	n/a
	449		n/a	n/a	n/a	n/a
	838		n/a	n/a	n/a	n/a
	828		n/a	n/a	n/a	n/a
	899		n/a	n/a	n/a	n/a
	643		n/a	n/a	n/a	n/a
	968		n/a	n/a	n/a	n/a
	699		n/a	n/a	n/a	n/a

(Continued)

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

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE—REVENUE BONDS

AUGUST 31, 2003

(Amounts in thousands)

Description of Issue	Pledged and Other Sources Related Expenditures for Fiscal Year 2003						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	
02 MF Series (Sugarcreek Apt)	\$ 727	\$ -	\$ -	\$ 727	\$ 12	\$ -	\$ 739
02 MF Series (West Oaks Apt)	741			741	10		751
02 MF Series (Park Meadows Apts)	300			300	5		305
02 MF Series (Clarkridge Villas Apts)	1,008			1,008	14		1,022
02 MF Series (Hickory Trace Apts)	679			679	10		689
02 MF Series (Green Crest Apts)	702			702	10		712
02 MF Series (Ironwood Crossing)	792			792	13		806
02 MF Series (Woodway Village)	346			346	7		353
03 MF Series (Reading Road)	402			402	7		409
03 MF Series (North Vista)	324			324	7		331
03 MF Series (West Virginia)	156			156	3		159
03 MF Series (Primrose Houston)	266			266	6		272
03 MF Series (Timber Oaks)	83	6		89	2		91
03 MF Series (Ash Creek Apts)	13			13			13
03 MF Series (Peninsula Apts)	5			5			5
03 MF Series (Evergreen @ Mesquite)	5	4		9			9
Total Multifamily	27,686	10	40	27,736	488	5	28,216
TOTAL*	\$28,406	\$ 11	\$ 40	\$ 28,457	\$516	\$ 5	\$ 28,967

*Totals may not add due to rounding.

SCHEDULE 6

Debt Service			Interest and Sinking Fund		Reserve Fund	
Principal	Interest	Refunded or Extinguished	Minimum	Actual	Minimum	Actual
\$ -	\$ 727	\$ -	\$ n/a	\$ n/a	\$ n/a	\$ n/a
	741		n/a	n/a	n/a	n/a
	300		n/a	n/a	n/a	n/a
	1,008		n/a	n/a	n/a	n/a
	679		n/a	n/a	n/a	n/a
	702		n/a	n/a	n/a	n/a
	792		n/a	n/a	n/a	n/a
	346		n/a	n/a	n/a	n/a
	402		n/a	n/a	n/a	n/a
	324		n/a	n/a	n/a	n/a
	156		n/a	n/a	n/a	n/a
	266		n/a	n/a	n/a	n/a
	83		n/a	n/a	n/a	n/a
	13		n/a	n/a	n/a	n/a
	5		n/a	n/a	n/a	n/a
	5		n/a	n/a	n/a	n/a
<u>2,619</u>	<u>36,727</u>	<u>40</u>			<u>843</u>	<u>977</u>
<u>\$ 9,679</u>	<u>\$ 97,568</u>	<u>\$ 241,855</u>			<u>\$ 2,601</u>	<u>\$ 2,756</u>

(Concluded)

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APPENDIX D-2

UNAUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
FOR FOUR-MONTH PERIOD ENDED
DECEMBER 31, 2003

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at December 31, 2003
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds	Combined Totals
ASSETS									
Cash	\$ 211,786	\$ 21,890,249	\$ 59,724	\$ 1,641,314	\$	\$	\$ 22,168	\$ 1,961,038	\$ 25,786,279
Cash Equivalents	94,305,052	46,056,169	660,281	36,306,622	1,178,493	433,397	182,228,609	10,639,485	371,808,108
Investments, fair value	49,712,031	116,435,746	11,060,560	153,723,048	833,712	27,455,370			331,765,097
Mortgage-backed securities, fair value	231,285,525	378,084,900	34,109,530	755,884,214	14,845,363			1,610,480	685,780,708
Loans Receivable, net	66,883,686	2,761,145							827,139,535
Real Estate Owned, net	743,551	35,632							779,183
Notes Receivable								1,000,000	1,000,000
Accrued Interest Receivable	2,143,141	2,249,580	195,329	5,326,556	78,722	148,218	459,701	15,272	10,616,519
Deferred Issuance Costs, net	4,525,473	5,240,266	365,410	718,931	113,166	132,876			11,096,122
Other Assets	51,033	151		533,540		(2)		341,268	925,990
TOTAL ASSETS	\$ 449,861,288	\$ 572,753,838	\$ 46,450,834	\$ 954,134,225	\$ 16,215,764	\$ 29,003,571	\$ 182,710,478	\$ 15,567,543	\$ 2,266,697,541
LIABILITIES AND FUND BALANCES									
Bonds Payable	\$ 379,356,822	\$ 531,133,257	\$ 43,195,485	\$ 756,843,260	\$ 14,745,000	\$ 26,260,000	\$	\$	\$ 1,751,633,824
Commercial Paper Notes Payable							182,046,000		182,046,000
Accrued Interest Payable	7,444,154	13,859,008	295,155	8,085,387	79,688	143,458	180,419		30,067,269
Accounts Payable and Other									
Accrued Expenses	12,656	1,031	0	691				765,539	779,917
Other Liabilities	3,746,199	6,608,800	826,898	187,906,225	1,975	12,944	182,608	94,497	199,380,146
TOTAL LIABILITIES	390,559,831	551,602,096	44,317,538	952,915,563	14,826,663	26,416,402	182,409,027	860,036	2,163,907,156
Restricted Fund Balance	59,301,457	21,151,742	2,133,296	1,218,662	1,389,101	2,587,169	301,451	14,707,507	102,790,385
TOTAL LIABILITIES AND FUND BALANCES	\$ 449,861,288	\$ 572,753,838	\$ 46,450,834	\$ 954,134,225	\$ 16,215,764	\$ 29,003,571	\$ 182,710,478	\$ 15,567,543	\$ 2,266,697,541

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
For the Fourth Period Ending December 31, 2003
(Unaudited)

	Single Family Program Funds	Residential 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	Combined Totals
Interest Revenue:									
Loans	\$ 1,594,835	\$ 89,460	\$ 991,949	\$ 14,006,579	\$ 357,078	\$ 674,074	\$ 468,564	\$ 16,786	\$ 15,707,640
Investments	5,519,179	9,037,372	991,949	203,056	357,078	674,074	468,564	49,845	17,301,117
Rebate Adjustment	2,747								2,747
Real Estate Owned	7,116,761	9,128,832	991,949	14,209,635	357,078	674,074	468,564	66,611	33,011,504
Total Interest Revenue									
Interest Expense:									
Interest on Bonds	7,486,968	9,536,989	975,170	14,006,591	343,131	607,684	193,455	66,611	32,956,523
Interest on Commercial Paper	(370,207)	(410,157)	16,779	203,054	13,947	66,390	275,109		193,455
Net Interest Revenue									
Other Revenue:									
Commitment Fees	64,349	37,540	27,438	5,639				390,163	134,966
Other	80,417	66,714	27,438	134,202	0	0	0	390,163	651,496
Total Other Revenue									
Other Expenses:									
Amortization and Write-Off of Deferred Issuance Costs	82,209	95,966	2,740	4,988	1,777	1,948			189,628
Mortgage Loan Servicing Fees	76,735	3,594	3,560	109	1,681	32,942	3,109	980	80,329
Trustee Fees	34,664	17,261	3,560	109	1,681	32,942	3,109	980	94,306
Mortgage Pool & Self Insurance	71,386	(1,600)	14,739				4,000	108,709	71,386
Provision for Estimated Losses on Loans	(20,800)	199,759						1,914,948	(22,400)
Other	17,347								345,554
General and Administrative									1,914,948
Total Other Expenses									
Operating Income (Loss)	\$ 506,982	\$ (620,883)	\$ 23,178	\$ 337,798	\$ 10,489	\$ 31,500	\$ 266,000	\$ (1,568,863)	\$ (2,025,763)
Gain (Loss) on Early Extinguishment of Debt	(721,518)				(24,315)	(23,035)			(768,868)
Net Increase (Decrease) in Fair Value of Investments	3,017,139	4,449,933	(82,341)	(751,280)	20,962	(415)	5,609	3,271,986	7,405,278
Operating Transfers, net	(1,024,791)	(140,154)	1,553	(413,482)	(8,151)	(243,602)			1,111,170
Net Income (Loss)									
Restricted fund balance, beginning of period	58,537,609	17,462,846	2,190,906	1,632,144	1,390,116	2,822,721	27,842	13,004,384	97,065,568
Equity Transfers									
RESTRICTED FUND BALANCE, END OF PERIOD	\$ 59,301,457	\$ 21,151,742	\$ 2,133,296	\$ 1,218,662	\$ 1,389,101	\$ 2,587,169	\$ 301,451	\$ 14,707,507	\$ 102,790,385

APPENDIX E

INVESTMENT OF FUNDS RELATING TO OUTSTANDING OBLIGATIONS AND SENIOR LIEN BONDS

The following table summarizes certain information as of December 31, 2003, regarding yields (calculated on the basis of stated maturity) or existing investments (valued at par) within the Debt Service Reserve Fund and the Float Fund and Acquisition Fund (as defined in Footnote 1 below) in connection with the outstanding Senior Lien Bonds:

Fund or Account	Approximate Amount Invested (Par Value)	Average Investment Rate	Investment Maturity Date	Investment Security/ Investment Agreement Provider
Debt Service Reserve Fund				
Series 1980	\$ 347,998	13.875%	5/15/2011	Treasury Bond
Series 1996D/E/F	941,870	13.250%	5/15/2014	Treasury Bond
Series 2002A	300,000	13.875%	5/15/2011	Treasury Bond
Float Fund⁽¹⁾				
Series 1982A	25,218	5.960%	9/30/2029	FGIC GIC
Series 1983A	1,231,728	5.977%	9/30/2029	FGIC GIC
Series 1984A/B	469,173	4.766%	9/30/2029	FGIC GIC
Series 1985A	1,043,946	5.805%	9/30/2029	FGIC GIC
Series 1985B/C	146,260	6.012%	9/30/2029	FGIC GIC
Series 1987B	817,180	6.000%	9/30/2029	FGIC GIC
Series 1991A	467,012	6.080%	9/30/2029	FGIC GIC
Series 1994A/B	32,447	4.430%	9/30/2029	FGIC GIC
Series 1995A/B	7,118,816	6.020%	9/30/2029	FGIC GIC
Series 1995C	112,154	4.604%	9/30/2029	FGIC GIC
Series 1996A/B/C	3,563,628	5.916%	9/01/2028	Westdeutsche Bank Investment Agreement
Series 1996D/E	13,008,838	6.023%	9/30/2029	FGIC GIC
Series 1997A/B/C	5,471,785	6.008%	8/31/2029	AIGMFC GIC
Series 1997D/E/F	5,109,077	5.063%	8/31/2029	CDCFC GIC
Series 2002A	40,065	0.980%	1/02/2004	Goldman Sachs Repurchase Agreement
Series 2002ABCD	3,108,795	3.382%	3/01/2034	Bayerische GIC
Acquisition Fund				
1994A/B	902,633	0.980%	1/02/2004	Goldman Sachs Repurchase Agreement
2002A	4,576,723	0.980%	1/02/2004	Goldman Sachs Repurchase Agreement
2002ABCD	79,253,917	0.980%	1/02/2004	Goldman Sachs Repurchase Agreement

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

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

The following charts summarize certain matters relating to the financial condition of the Single Family Trust Indenture (combined for Senior Lien Bonds and the Obligations) for the fiscal years ending August 31, 2002, and August 2003. Such information has been derived from the audited financial statements of the Department for each of such fiscal years. Previous fiscal year audits may be obtained from NRMSIRs and the Texas Municipal Advisory Council, 600 West 8th Street, P.O. Box 2177, Austin, TX 78768-2177.

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

For Fiscal Year Ending August 31

	2002	2003
CURRENT ASSETS		
Cash and cash equivalents:		
Cash on hand		
Cash in bank		
Cash in State Treasury		
Cash equivalents		
Restricted Assets:		
Cash and cash equivalents:		
Cash in bank	986,076	169,740
Cash equivalents	29,029,047	64,435,863
Short-term investments		
Loans and contracts	5,200,963	3,916,394
Interest receivable	2,841,660	2,090,595
Investments, net		
Receivables:		
Interest receivable		
Note receivable		
Due from Other Funds		
Mortgage loans receivable, net		
Consumable inventories		
Real estate owned, net		
Fixed assets:		
Furniture and equipment		
Less accumulated depreciation		
Deferred issuance costs, net		
Other assets	12,893	4,646
TOTAL CURRENT ASSETS	38,070,639	71,617,238
NONCURRENT ASSETS:		
Other receivables		
Capital assets:		
Nondepreciable:		
Other capital assets		
Depreciable:		
Furniture and equipment		
Less accumulated depreciation		
Restricted assets:		
Investments	440,261,284	348,083,544
Loans, contracts and notes receivable	90,318,841	66,649,866
Other noncurrent assets:		
Deferred issuance cost-net	5,930,973	4,988,102
Real estate owned-net	430,921	748,225
Total noncurrent assets	536,942,019	420,469,737
TOTAL ASSETS	575,012,658	492,086,975

	2002	2003
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts payable	86,735	61,015
Accrued bond interest payable	13,240,406	12,313,719
Deferred revenues	2,571,005	2,041,671
Due to other funds		
Due to other Agencies		
Revenue bonds payable	2,250,000	2,870,000
Commercial paper notes payable		
Employees compensable leave		
Notes and loans payable		
Other current liabilities	1,366,387	1,665,054
Total current liabilities	19,514,533	18,951,459
NONCURRENT LIABILITIES:		
Employee's compensable leave		
Revenue bonds payable	493,130,889	414,597,907
Other noncurrent liabilities		
Total noncurrent liabilities	493,130,889	414,597,907
TOTAL LIABILITIES	512,645,422	433,549,366
NET ASSETS		
INVESTED CAPITAL ASSETS-		
Net of related debt		
RESTRICTED	62,367,236	58,537,609
UNRESTRICTED		
TOTAL NET ASSETS	62,367,236	58,537,609
Fund equity retained earnings, restricted		

For Fiscal Year Ending August 31

	2002	2003
Operating Revenues:		
Interest and investment income	\$30,017,462	\$27,194,310
Net increase (decrease) in fair value	10,255,856	(2,195,483)
Realized and unrealized gains on investments		
Other operating revenues	937,787	868,437
TOTAL OPERATING REVENUES	41,211,105	25,867,264
Operating expenses:		
Salaries and wages		
Payroll related costs		
Professional fees and services	11,000	14,555
Travel		
Materials and supplies		
Communication and utilities		
Repairs and maintenance		
Rentals and leases		
Printing and reproduction		
Depreciation and amortization	247,749	285,970
Interest	25,935,991	26,227,111
Claims and losses		763,259
Other operating expenses	1,707,140	
TOTAL OTHER EXPENSES		
TOTAL OPERATING EXPENSES	27,901,880	27,290,895
OPERATING INCOME (LOSS)	13,309,225	(1,423,631)
NON-OPERATING REVENUES (EXPENSES):		
Gain (loss) on early extinguishment of debt	168,168	
Total non-operating revenues (expenses)	168,168	
Income (loss) before other revenues, expenses, gains, losses and transfers	13,477,393	(1,423,631)
Operating transfer, net		
OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS:		
Extraordinary items	(1,070,758)	(1,294,615)
Transfers in (out)	(1,139,002)	(1,111,381)
CHANGE IN NET ASSETS	11,267,633	(3,829,627)
NET ASSETS - September 1, 2002	51,099,603	62,367,236
Restatements		
NET ASSETS - September 1, 2002-as restated	51,099,603	62,367,236
NET ASSETS-August 31, 2003	\$62,367,236	\$58,537,609
NET INCOME (LOSS)		

Fund equity (deficit), beginning of year

Fund equity, end of year

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APPENDIX G

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⁾	\$35,550	\$42,660	\$56,880	\$71,100	\$81,765	\$85,320	\$99,540
Brazoria Metro ⁽²⁾	\$31,450	\$37,740	\$50,320	\$62,900	\$72,335	\$75,480	\$88,060
Bryan-College Station Metro ⁽³⁾	\$27,000	\$32,400	\$43,200	\$54,000	\$62,100	\$64,800	\$75,600
Dallas Metro ⁽⁴⁾	\$33,250	\$39,900	\$53,200	\$66,500	\$76,475	\$79,800	\$93,100
Fort Worth - Arlington Metro ⁽⁵⁾	\$31,350	\$37,620	\$50,160	\$62,700	\$72,105	\$75,240	\$87,780
Galveston - Texas City Metro ⁽⁶⁾	\$29,900	\$35,880	\$47,840	\$59,800	\$68,770	\$71,760	\$83,720
Houston Metro ⁽⁷⁾	\$30,500	\$36,600	\$48,800	\$61,000	\$70,150	\$73,200	\$85,400
Austin County	\$28,100	\$33,720	\$44,960	\$56,200	\$64,630	\$67,440	\$78,680
Bandera County	\$26,750	\$32,100	\$42,800	\$53,500	\$61,525	\$64,200	\$74,900
Blanco County	\$27,550	\$33,060	\$44,080	\$55,100	\$63,365	\$66,120	\$77,140
Carson County	\$28,250	\$33,900	\$45,200	\$56,500	\$64,975	\$67,800	\$79,100
Cooke County	\$26,950	\$32,340	\$43,120	\$53,900	\$61,985	\$64,680	\$75,460
Gillespie County	\$27,000	\$32,400	\$43,200	\$54,000	\$62,100	\$64,800	\$75,600
Hartley County	\$31,050	\$37,260	\$49,680	\$62,100	\$71,415	\$74,520	\$86,940
Irion County	\$27,400	\$32,880	\$43,840	\$54,800	\$63,020	\$65,760	\$76,720
Kendall County	\$33,900	\$40,680	\$54,240	\$67,800	\$77,970	\$81,360	\$94,920
Loving County	\$32,500	\$39,000	\$52,000	\$65,000	\$74,750	\$78,000	\$91,000
Ochiltree County	\$28,050	\$33,660	\$44,880	\$56,100	\$64,515	\$67,320	\$78,540
Roberts County	\$26,550	\$31,860	\$42,480	\$53,100	\$61,065	\$63,720	\$74,340
Wise County	\$27,850	\$33,420	\$44,560	\$55,700	\$64,055	\$66,840	\$77,980
Balance of State	\$26,500	\$31,800	\$42,400	\$53,000	\$60,950	\$63,600	\$74,200

(1) Bastrop, Caldwell, Hays, Travis and Williamson Counties

(2) Brazoria County

(3) Brazos County

(4) Collin, Dallas, Denton, Ellis, Hunt, Kaufman & Rockwall Counties

(5) Hood, Johnson, Parker, Tarrant Counties

(6) Galveston

(7) Chambers, Fort Bend, Harris, Liberty, Montgomery & Waller Counties

(^) 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.

Effective: April 1, 2004

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APPENDIX H
FORM OF PROPOSED OPINION OF BOND COUNSEL
SERIES 2004A BONDS

[LETTERHEAD OF BOND COUNSEL]

April __, 2004

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Junior Lien Single Family Mortgage Revenue Bonds to be known as its Taxable Junior Lien Single Family Variable Rate Mortgage Revenue Bonds, Series 2004A (the "Series 2004A Bonds"). The initially issued Series 2004A Bonds shall bear interest from the delivery date thereof. Interest on the Series 2004A Bonds is payable September 1, 2004, and semiannually thereafter on each March 1 and September 1 until maturity or prior redemption. The Series 2004A Bonds are issuable only as fully registered bonds without coupons in denominations of \$100,000 and any whole multiple of \$5,000 in excess thereof. The Series 2004A 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 2004A BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on March 11, 2004 (the "Bond Resolution"), a Junior Lien Trust Indenture dated as of May 1, 1994 between the Department and J.P. Morgan Trust Company, National Association, as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "Junior Lien Trust Indenture"), and a Fourth Supplemental Junior Lien Trust Indenture (Series Supplement 2004A) dated as of April 1, 2004 (the "Fourth Series Supplement"). The Junior Lien Trust Indenture and the Fourth Series Supplement are referred to herein collectively as the "Indenture". The Series 2004A Bonds are being issued for the purpose of providing funds to make down payment and closing cost assistance loans to certain eligible borrowers in connection with mortgage loans and paying a portion of the costs of issuance of the Series 2004A Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE JUNIOR LIEN TRUST INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2004A Bonds upon the terms and conditions set forth in the Junior Lien Trust Indenture. The Department reserves the right in the Indenture to issue other bonds of the Department for other programs similar to the program initially funded with the proceeds of the Series 2004A Bonds, and further reserves the right to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 2004A 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 2004A Bonds and the security therefor. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2004A 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 2004A Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. R-1 of the Series 2004A 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 Fourth Series Supplement; to perform its obligations under the Indenture; and to issue and sell the Series 2004A 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 Fourth Series Supplement. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal and redemption price of and interest on the Series 2004A Bonds. We draw your attention to the fact that the Series 2004A Bonds are secured on a subordinate basis with the Department's Single Family Mortgage Revenue Bonds, 1995 Series A-1; Single Family Mortgage Revenue Refunding Bonds, 1995 Series B-1; Taxable Single Family Mortgage Revenue Bonds, 1995 Series C-1; Single Family Mortgage Revenue Bonds, 1996 Series A; Single Family Mortgage Revenue Refunding Bonds, 1996 Series B; Single Family Mortgage Revenue Bonds, 1996 Series C; Single Family Mortgage Revenue Bonds, 1996 Series D; Single Family Mortgage Revenue Refunding Bonds, 1996 Series E; Single Family Mortgage Revenue Bonds, 1997 Series A; Single Family Mortgage Revenue Refunding Bonds, 1997 Series B; Taxable Single Family Mortgage Revenue Bonds, 1997 Series C; Single Family Mortgage Revenue Bonds, 1997 Series D; Single Family Mortgage Revenue Refunding Bonds, 1997 Series E; Taxable Single Family Mortgage Revenue Bonds, 1997 Series F; Single Family Mortgage Revenue Bonds, 2002 Series A; Single Family Mortgage Revenue Refunding Bonds, 2002 Series B; Single Family Mortgage Revenue Refunding Bonds, 2002 Series C; and Single Family Mortgage Revenue Refunding Bonds, 2002 Series D, and the Single Family Mortgage Revenue Refunding Bonds, 2004 Series A and Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B being delivered by the Department concurrently with the delivery of the Series 2004A Bonds, all issued or to be issued under the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980, as supplemented by the First through Thirty-Seventh Supplements thereto (collectively, the "Single Family Indenture"). In addition, the Department may issue from time to time additional obligations under the Single Family Indenture which will be secured on a superior basis to the Series 2004A Bonds. Further, we draw your attention to the fact that the Series 2004A Bonds are secured on a parity basis with the Department's Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2004A Bonds. The authorized officers of the Department have duly executed the Series 2004A Bonds and the Trustee has duly authenticated the Series 2004A Bonds, to the extent required by the Indenture, and delivered the Series 2004A Bonds to the initial purchasers thereof. The Series 2004A 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 2004A Bonds that we have examined are regular and proper.

4. The Series 2004A 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 2004A 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 2004A 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 2004A 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 2004A Bonds is includable in gross income for federal income tax purposes under existing law.

EXCEPT AS STATED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Series 2004A Bonds.

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

Very truly yours,

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APPENDIX I
SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE.**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any applicable coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100