

OFFICIAL STATEMENT

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

Vinson & Elkins L.L.P., Bond Counsel, is of the opinion, that subject to certain conditions described herein, (i) interest on the Series 2001 Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) interest on the Series 2001A Bonds and Series 2001B Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, and (iii) interest on the Series 2001C Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations.

NEW ISSUES - BOOK-ENTRY ONLY

\$100,525,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Residential Mortgage Revenue Bonds

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

Interest Accrues: October 1, 2001

Due: As shown on inside cover page

The Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2001A (the "Series 2001A Bonds"), Residential Mortgage Revenue Refunding Bonds, Series 2001B (the "Series 2001B Bonds"), and Residential Mortgage Revenue Refunding Bonds, Series 2001C (the "Series 2001C Bonds") (the Series 2001A Bonds, Series 2001B Bonds, and Series 2001C Bonds, collectively, the "Series 2001 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 2001 Bonds. The Series 2001 Bonds will be available to purchasers only in book-entry form in denominations of \$5,000 or any integral multiple thereof. For as long as Cede & Co. is the exclusive registered owner of the Series 2001 Bonds, the principal of or redemption price, and interest on the Series 2001 Bonds will be payable by Bank One, National Association, Austin, Texas, as Trustee, to DTC, which will be responsible for making such payments to DTC Participants (as defined herein), for subsequent remittance to the owners of beneficial interests in the Series 2001 Bonds. The purchasers of the Series 2001 Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 2001 BONDS - DTC and Book-Entry."

The Series 2001 Bonds will accrue interest from the date shown above until their respective maturities or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest on the Series 2001 Bonds will be payable to DTC commencing on July 1, 2002, and semi-annually thereafter on each January 1 and July 1 until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

THE SERIES 2001 BONDS ARE SUBJECT TO SPECIAL REDEMPTION, OPTIONAL REDEMPTION, AND MANDATORY SINKING FUND REDEMPTION ON THE DATES AND AT THE REDEMPTION PRICES, INCLUDING REDEMPTION AT PAR UNDER CERTAIN CIRCUMSTANCES, WHICH ARE MORE FULLY DESCRIBED HEREIN. See "THE SERIES 2001 BONDS - Redemption Provisions."

The Series 2001A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "Mortgage Certificates") backed by qualifying FHA-insured or VA- or RHS-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. For certain geographic and income restrictions, see "THE PROGRAM AND THE MORTGAGE LOANS." The Mortgage Certificates will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae") (the "Ginnie Mae Certificates") or the Federal National Mortgage Association ("Fannie Mae") (the "Fannie Mae Certificates"). See APPENDIX C-1 and APPENDIX C-2. The proceeds of the Series 2001B Bonds will be used for the purpose of refunding and redeeming an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT), thereby making additional funds available to acquire Mortgage Certificates. The proceeds of the Series 2001C Bonds, together with other available Department funds, will be used for the purpose of refunding and redeeming a portion of the Department's Residential Mortgage Revenue Bonds, Series 1988A and a portion of the Department's Residential Mortgage Revenue Bonds, Series 1989A in order to achieve debt service savings. The Series 2001 Bonds, the Prior Bonds (as defined herein), and, unless subordinated, all Bonds subsequently issued under the Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Trust Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE."

THE SERIES 2001 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, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2001 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 AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 2001 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

It is expected that within fifteen to thirty days after the sale of the Series 2001 Bonds, the Department will sell its "Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2001D" (the "Series 2001D Bonds"), in an expected principal amount of \$300,000 and "Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2001E" (the "Series 2001E Bonds"), in an expected principal amount of \$54,300,000. The offering of the Series 2001D Bonds and the Series 2001E Bonds shall be pursuant to a separate offering document.

The Series 2001 Bonds are offered when, as, and if issued by the Department. Delivery of the Series 2001 Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Akin, Gump, Strauss, Hauer & Feld, L.L.P. and Wickliff & Hall, P.C. It is expected that the Series 2001 Bonds will be available for delivery to DTC in book-entry only form on or about October 30, 2001.

October 5, 2001

SALOMON SMITH BARNEY

BEAR, STEARNS & CO. INC.

**FIRST SOUTHWEST COMPANY
M.R. BEAL & COMPANY**

**GEORGE K. BAUM & COMPANY
MORGAN KEEGAN & COMPANY, INC.**

SIEBERT BRANDFORD SHANK & CO., LLC

MATURITY SCHEDULE

\$52,715,000 Series 2001A Bonds (AMT)

\$2,495,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
January 1, 2004	\$290,000	3.15%	3.15%
January 1, 2005	315,000	3.45	3.45
January 1, 2006	335,000	3.70	3.70
January 1, 2007	355,000	3.95	3.95
January 1, 2008	375,000	4.20	4.20
January 1, 2009	400,000	4.35	4.35
January 1, 2010	425,000	4.45	4.45

\$18,400,000 5.70% Premium PAC Term Bonds due January 1, 2033 Price 107%
\$5,000,000 5.35% Term Bonds due January 1, 2033 (Not Reoffered)
\$26,820,000 5.35% Term Bonds due July 1, 2033 Price 100%

\$15,585,000 Series 2001B Bonds (AMT)

\$6,370,000 5.00% Term Bonds due July 1, 2016 Price 100%
\$9,215,000 5.25% Term Bonds due July 1, 2022 Price 100%

\$32,225,000 Series 2001C Bonds (Non-AMT)

\$23,940,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
January 1, 2003	\$1,795,000	2.55%	2.55%
January 1, 2004	2,080,000	2.90	2.90
January 1, 2005	2,150,000	3.20	3.20
January 1, 2006	2,240,000	3.45	3.45
January 1, 2007	2,330,000	3.70	3.70
January 1, 2008	2,430,000	3.95	3.95
January 1, 2009	2,540,000	4.10	4.10
January 1, 2010	2,660,000	4.20	4.20
January 1, 2011	2,790,000	4.30	4.30
January 1, 2012	2,925,000	4.40	4.40

\$8,285,000 4.625% Super-Sinker Term Bonds due July 1, 2015 Price 100%

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 2001 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 Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under such document shall, under any circumstances, create any implications that there has been no change in the affairs of the Department or other matters described herein since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2001 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2001 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2001 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED HEREIN, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

TABLE OF CONTENTS

INTRODUCTION	1
PLAN OF FINANCE	4
SOURCES AND USES OF FUNDS	5
THE SERIES 2001 BONDS	5
THE 1988A MORTGAGE CERTIFICATES AND 1989 A/B MORTGAGE CERTIFICATES	16
SECURITY FOR THE BONDS	17
ASSUMPTIONS AND RISKS	24
THE DEPARTMENT	27
THE PROGRAM AND THE MORTGAGE LOANS	30
THE TRUST INDENTURE	38
TEXAS TREASURY SAFEKEEPING TRUST COMPANY	47
TAX MATTERS	48
CONTINUING DISCLOSURE OF INFORMATION	53
RATINGS	55
UNDERWRITING	56
FINANCIAL ADVISOR	56
FINANCIAL STATEMENTS	56
LITIGATION MATTERS	57
LEGALITY FOR INVESTMENT	57
VERIFICATION OF MATHEMATICAL COMPUTATIONS	57
APPROVAL OF LEGALITY	58
ADDITIONAL INFORMATION	58
APPENDIX A GLOSSARY	A-1
APPENDIX B SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS	B-1
APPENDIX C-1 GINNIE MAE AND THE GINNIE MAE CERTIFICATES	C-1-1
APPENDIX C-2 FANNIE MAE AND THE FANNIE MAE CERTIFICATES	C-2-1
APPENDIX D-1 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT FOR THE FISCAL YEARS ENDED AUGUST 31, 2000 AND 1999	D-1-1
APPENDIX D-2 UNAUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT FOR SEVEN-MONTH PERIOD ENDED MARCH 31, 2001	D-2-1
APPENDIX E FORM OF PROPOSED OPINION OF BOND COUNSEL FOR SERIES 2001 BONDS	E-1
APPENDIX F-1 ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES	F-1-1
APPENDIX F-2 OTHER INDEBTEDNESS OF THE DEPARTMENT	F-2-1
APPENDIX G APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS	G-1

OFFICIAL STATEMENT

Relating to

\$100,525,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS Residential Mortgage Revenue Bonds

\$52,715,000 Series 2001A (AMT)

\$15,585,000 Series 2001B (AMT)

\$32,225,000 Series 2001C (Non-AMT)

INTRODUCTION

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its Residential Mortgage Revenue Bonds, Series 2001A (the "Series 2001A Bonds"), Residential Mortgage Revenue Refunding Bonds, Series 2001B (the "Series 2001B Bonds"), and Residential Mortgage Revenue Refunding Bonds, Series 2001C (the "Series 2001C Bonds"). The Series 2001A Bonds, the Series 2001B Bonds, and the Series 2001C Bonds are referred to collectively herein as the "Series 2001 Bonds." Capitalized terms used but not otherwise defined herein shall have the respective meanings for such terms as set forth in "APPENDIX A - GLOSSARY."

It is expected that within fifteen to thirty days after the sale of the Series 2001 Bonds, the Department will sell its "Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2001D" (the "Series 2001D Bonds"), in an expected principal amount of \$300,000 and "Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2001E" (the "Series 2001E Bonds"), in an anticipated principal amount of \$54,300,000. Proceeds of the Series 2001D Bonds will be used to finance Mortgage Loans under the Indenture. Proceeds of the Series 2001E Bonds will be invested in a guaranteed investment agreement and none of such proceeds will be used to purchase Mortgage Certificates. The Series 2001D Bonds and the Series 2001E Bonds will be on a parity in all respects with the Series 2001 Bonds and the Prior Bonds (hereinafter defined) and any investment agreements entered into in connection with the Series 2001D Bonds and the Series 2001E Bonds shall also constitute security for the Series 2001 Bonds and the Prior Bonds. The offering of the Series 2001D Bonds and the Series 2001E Bonds shall be pursuant to a separate offering document.

The Department, a public and official governmental agency of the State of Texas (the "State"), was created and organized pursuant to and in accordance with the provisions of 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 2001 Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on August 21, 2001 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987 (the "Master Indenture" and as amended and supplemented from time to time, collectively, the "Trust Indenture") between the Agency or the Department, as the case may be, and MTrust Corp., or its successor as trustee, Bank One, National Association, Austin, Texas (the "Trustee"), and a Twentieth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Twentieth Supplemental Indenture") with respect to the Series 2001A Bonds, a Twenty-First Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Twenty-First Supplemental Indenture") with respect to the Series 2001B Bonds, and a Twenty-Second Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Twenty-Second Supplemental Indenture") with respect to the Series 2001C Bonds, each dated as of October 1, 2001 (collectively, the "Series 2001 A/B/C Series Supplements"). The Trust Indenture authorizes the Department to issue bonds to provide funds to acquire or refinance residential mortgage loans or participations therein ("Mortgage Loans") which are made to eligible borrowers, as determined from time to time by the Department, to refund Outstanding Bonds issued under the Trust Indenture or certain other bonds of the Department or the Agency, to fund certain reserves, and to pay costs associated therewith. The Department has previously issued nineteen prior series of residential mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which \$435,680,000 in aggregate principal amount was Outstanding as of March 31, 2001. See "SECURITY FOR THE BONDS - Prior Bonds." The Series 2001 Bonds, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the "Bonds") are equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Trust Indenture. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Additional Bonds."

The Series 2001A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates (the "2001 Mortgage Certificates") guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("Ginnie Mae") or the Federal National Mortgage Association ("Fannie Mae") which represent beneficial ownership of pools of Mortgage Loans (the "2001 Mortgage Loans") and for paying a portion of the costs of issuance of the Series 2001 Bonds. The 2001 Mortgage Certificates together with the mortgage pass-through certificates acquired with proceeds of the Prior Bonds or Bonds subsequently issued pursuant to the Trust Indenture are referred to herein as the "Mortgage Certificates." The Series 2001B Bonds are being issued to refund and redeem an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT) (the "Refunded Notes"), thereby making additional funds available to purchase 2001 Mortgage Certificates. The Series 2001C Bonds are being issued to provide funds which, together with certain available funds of the Department, will be used to refund and redeem \$31,535,000 of the Department's Residential Mortgage Revenue Bonds, Series 1988A and \$690,000 of the Department's Residential Mortgage Revenue Bonds, Series 1989A (collectively, the "Refunded Bonds") for the purpose of achieving debt service savings. Twenty percent (20%) of the lendable proceeds of the Series 2001A Bonds will be set aside for at least one year for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. In addition, fifty percent (50%) of the lendable proceeds of the Series 2001A Bonds and seventy percent (70%) of the lendable funds made available through the issuance of the Series 2001B Bonds will be reserved for a period of three months to make Mortgage Loans on a regional basis (based upon relative populations) for the eleven uniform state service regions into which the State is divided. Finally, thirty percent (30%) of the lendable funds made available through the issuance of the Series 2001A Bonds and Series 2001B Bonds will be reserved for a period of one year (or such longer period as determined by the Department) to make Mortgage Loans to individuals and families of very low income (not exceeding 60% of applicable median family income). In connection with the Program, the Department expects to make available to eligible borrowers down payment and

closing costs assistance in an amount up to 4% of the principal amount of the Mortgage Loan. Such assistance is expected to be available for 50% of the total Program allocation. Such assistance will be available to borrowers of very low income (60% of AMFI - see APPENDIX G) wherever located and to borrowers of low income (80% of AMFI) in federally targeted areas. See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, - Regional Reservation, - Very Low Income Reservation, and Down Payment and Closing Costs Assistance" and "ASSUMPTIONS AND RISKS - Non-Origination of Mortgage Loans."

The Series 2001 Bonds are on a parity in all respects with all outstanding Prior Bonds and, unless subordinated, any Bonds subsequently issued. The Prior Bonds are payable solely from and are secured by a pledge of and lien on the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), Investment Securities, moneys held in the Funds (excluding the Rebate Fund) and other property pledged under the Trust Indenture (collectively, the "Trust Estate"). The Trust Estate currently includes, among other things, Mortgage Certificates which were purchased with the proceeds of the Prior Bonds (other than the Series 1987A Bonds) and FHA-insured Mortgage Loans not backed by Mortgage Certificates (purchased with proceeds of the Series 1987A Bonds). There is no requirement that proceeds of subsequent issues of Bonds be used to purchase Mortgage Certificates. All payments with respect to principal of and interest on Mortgage Loans (net of servicing fees) and on Mortgage Certificates (net of servicing and guaranty fees) received by the Department and the earnings on investments of Funds and Accounts held pursuant to the Trust Indenture constitute Revenues. The pledge of and lien on the Trust Estate is subject to discharge if moneys or qualified securities sufficient to provide for the payment of all Outstanding Bonds are deposited and held in trust for such payment. See "SECURITY FOR THE BONDS."

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. However, for Bonds issued subsequent to 1997, there is no requirement in the Trust Indenture that additional deposits be made to, or additional amounts be maintained in, the Debt Service Reserve Fund or the Mortgage Reserve Fund. The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 2001 Bonds or any other Outstanding Bonds. As of March 31, 2001, the Debt Service Reserve Fund requirement for the Bonds was \$1,548,800, and the Mortgage Reserve Fund requirement for the Bonds was \$580,000. As of such date, such Debt Service Reserve Fund and Mortgage Reserve Fund requirements were satisfied, primarily as a result of the allocation to such Funds of investments in Mortgage Certificates held under the Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE" herein.

THE SERIES 2001 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, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2001 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 AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GINNIE MAE CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 2001 BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

There follows in this Official Statement a brief description of the plan of finance, the Department and its bond programs, together with summaries of certain terms of the Series 2001 Bonds, the Trust Indenture, and certain provisions of the Act, as well as other matters. All references herein to the Act, the Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 2001 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

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

PLAN OF FINANCE

Proceeds of the Series 2001A Bonds will be deposited into the 2001 A/B/C Mortgage Loan Account and used to purchase Mortgage Certificates and to pay a portion of the costs of issuance of the Series 2001 Bonds. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series 2001B Bonds are to be applied, within ninety (90) days after the date of issuance thereof, to refund and redeem an equal amount of the Refunded Notes, thereby making additional funds available to be deposited to the 2001 A/B/C Mortgage Loan Account and used to acquire Mortgage Certificates. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series 2001C Bonds will be applied, together with certain available funds of the Department, within ninety (90) days after the date of issuance thereof, to refund and redeem the Refunded Bonds for the purpose of achieving debt service savings.

SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 2001 Bonds (exclusive of the accrued interest on the Series 2001 Bonds which is to be deposited in the 2001 A/B/C Revenue Account) are expected to be approximately as set forth below.

Sources:

Bond Proceeds -- Series 2001A Bonds	\$54,003,000
Bond Proceeds -- Series 2001B Bonds	15,585,000
Bond Proceeds -- Series 2001C Bonds	32,225,000
Master Servicer Premium	646,200
Department Contribution	<u>340,863</u>
Total Sources	<u>\$102,800,063</u>

Uses:

Redemption of the Refunded Bonds ⁽¹⁾	\$32,225,000
Deposit to 2001 A/B/C Mortgage Loan Account	65,908,000
Deposit to Revenue Fund	2,970,424
Costs of Issuance ⁽²⁾	862,359
Underwriters' Compensation	<u>834,280</u>
Total Uses	<u>\$102,800,063</u>

(1) A portion of the 1988A Mortgage Certificates and 1989A/B Mortgage Certificates will be transferred to the 2001 A/B/C Mortgage Loan Account upon redemption of the Refunded Bonds. See "THE 1988A MORTGAGE CERTIFICATES AND 1989 A/B MORTGAGE CERTIFICATES".

(2) Includes redemption premium on Refunded Bonds

THE SERIES 2001 BONDS

General

The Series 2001 Bonds are issuable only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as the Bond Depository for the Series 2001 Bonds. The Series 2001 Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof, as more fully described herein. The principal or redemption price of, and interest on the Series 2001 Bonds will be payable by the Trustee to DTC, which will be responsible for making such payments to DTC Participants (hereinafter defined) for subsequent remittance to the owners of beneficial interests in the Series 2001 Bonds or their nominees. See "THE SERIES 2001 BONDS - DTC and Book-Entry."

Interest

The Series 2001 Bonds will accrue interest from October 1, 2001, until maturity or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest accrued on the Series 2001 Bonds will be payable on July 1, 2002, and semiannually on each July 1 and January 1 thereafter until maturity or prior redemption. Interest on the Series 2001 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Redemption Provisions

The Series 2001 Bonds are subject to optional redemption, special redemption, and mandatory sinking fund redemption at various times prior to their scheduled maturities at various redemption prices as described below. **The Department anticipates that substantially all of the Series 2001 Bonds will be redeemed prior to their scheduled maturities as the result of the receipt by the Department of amounts representing Mortgage Loan Principal Prepayments and from certain excess Revenues transferred from the Residual Revenues Fund.**

Special Redemption from Unexpended Proceeds

The Series 2001A Bonds and Series 2001B Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities in whole or in part at a redemption price equal to 100% of the principal amount thereof (provided that any redemption of Series 2001A Bonds maturing January 1, 2033 (the "Premium PAC Term Bonds") pursuant to this provision shall be at a Redemption Price equal to 107% of the principal amount thereof) plus accrued interest thereon to but not including the date of redemption, from amounts representing lendable proceeds of the Series 2001 Bonds, if any, that are not to be used to purchase 2001 Mortgage Certificates and are transferred to the 2001 A/B/C Special Redemption Account (provided that any amounts transferred from the 2001 Down Payment Assistance Account shall be used to pay the Redemption Price of the Premium PAC Term Bonds). Such redemption shall occur as soon as practicable after receipt of the certification of the Department that such amounts will not be used to purchase 2001 Mortgage Certificates or the end of the Certificate Purchase Period, as the case may be, but in no event earlier than December 1, 2002, nor later than March 1, 2005. The Department is not required to transfer unexpended proceeds to the 2001 A/B/C Special Redemption Account unless such proceeds exceed \$250,000. Series 2001 Bonds to be redeemed in accordance with this provision shall be selected by the Trustee pro rata among Series 2001A Bonds and Series 2001B Bonds unless otherwise directed pursuant to a Letter of Instructions accompanied by a Cashflow Certificate.

Special Redemption From Mortgage Loan Principal Prepayments

The Series 2001 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time after July 1, 2002, after giving notice as provided in the Trust Indenture, at a redemption price equal to 100% of the principal amount of the Series 2001 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts representing Mortgage Loan Principal Prepayments that have been transferred to the 2001 A/B/C Special Redemption Account in accordance with the Trust Indenture.

Mortgage Loan Principal Prepayments Relating to 2001 Mortgage Certificates. In the event of a redemption pursuant to this provision from Mortgage Loan Principal Prepayments relating to the 2001 Mortgage Certificates, the Trustee shall select the particular Series 2001 Bonds to be redeemed as follows:

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

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

<u>Date</u>	<u>Premium PAC Term Bonds Outstanding Applicable Amount</u>
October 30, 2001	\$18,400,000
January 1, 2002	18,400,000
July 1, 2002	18,400,000
January 1, 2003	18,340,000
July 1, 2003	18,065,000
January 1, 2004	17,405,000
July 1, 2004	16,180,000
January 1, 2005	14,990,000
July 1, 2005	13,330,000
January 1, 2006	11,920,000
July 1, 2006	10,315,000
January 1, 2007	8,995,000
July 1, 2007	7,525,000
January 1, 2008	6,300,000
July 1, 2008	4,965,000
January 1, 2009	3,830,000
July 1, 2009	2,635,000
January 1, 2010	1,595,000
July 1, 2010	545,000
January 1, 2011	-0-

(b) amounts remaining following the redemptions specified in clause (a) above shall be applied, unless otherwise directed by a Letter of Instructions accompanied by a Cashflow Certificate, to the redemption of the Series 2001A Bonds (excluding the Premium PAC Term Bonds) and the Series 2001B Bonds which would produce, as nearly as practicable, a pro rata redemption of the Series 2001A Bonds (excluding the Premium PAC Term Bonds) and the Series 2001B Bonds to the extent that the 2001 Series A/B Cumulative Prepayments as of such date do not exceed the 2001 Series A/B Cumulative Applicable Amount as of such date; and

(c) amounts remaining following the redemptions specified in clauses (a) and (b) above shall be applied, unless otherwise directed by a Letter of Instructions accompanied by a Cashflow Certificate, to the redemption of those maturities of the Series 2001A Bonds and the Series 2001B Bonds which would produce, as nearly as practicable, a pro rata redemption of all of the Series 2001A Bonds and the Series 2001B Bonds taking into account the amounts applied to redeem the Series 2001A Bonds and the Series 2001B Bonds pursuant to the above-described redemptions.

Any special redemption of the Series 2001A Bonds and the Series 2001B Bonds pursuant to the "Special Redemption from Unexpended Proceeds" described above will reduce the Premium PAC Term Bonds Outstanding Applicable Amount and the Series 2001 A/B Cumulative Applicable Amount described above for the current and each future semiannual period by an amount equal to the product of the amount of such redemption and a fraction the numerator of which equals the sum of the amount of moneys disbursed from the 2001 A/B/C Mortgage Loan Account to redeem Series 2001A Bonds and Series 2001B Bonds and the denominator of which equals the sum of the amount of moneys initially deposited by the Trustee in the 2001 A/B/C Mortgage Loan Account for the purchase of 2001 Mortgage Loans.

Mortgage Loan Principal Prepayments Relating to 1988/1989 Transferred Mortgage Assets. In the event of a redemption pursuant to this provision from Mortgage Loan Principal Prepayments relating to the 1988/1989 Transferred Mortgage Assets, the Trustee shall, unless otherwise directed by a Letter of Instructions accompanied by a Cashflow Certificate select the Bonds to be redeemed as follows:

(a) for so long as any Series 1989 A/B Bonds remain Outstanding, the Trustee shall apply such amounts for redemption of Series 1989 A/B Bonds, until such Series 1989 A/B Bonds are no longer Outstanding; and

(b) if no Series 1989 A/B Bonds remain Outstanding, the Trustee shall apply such amounts for redemption of the Series 2001C Bonds on a pro rata basis.

Redemption Amounts and Prepayment Standard

The amounts shown in the table above for Premium PAC Term Bonds Outstanding Applicable Amount and the amounts for Series 2001 A/B Cumulative Applicable Amount are based on the assumptions of (i) receipt of prepayments on the 2001 Mortgage Loans equal to 75 percent of the Bond Market Association's (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans (as further described below) (the "BMA Prepayment Model") in the case of Premium PAC Term Bonds Outstanding Applicable Amount and 300 percent of the BMA Prepayment Model in the case of the Series 2001 A/B Cumulative Applicable Amount"; and (ii) that 100 percent of the moneys on deposit in the 2001 A/B/C Mortgage Loan Account attributable to the proceeds of the Series 2001 Bonds, will be used to purchase 2001 Mortgage Certificates. Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The BMA Prepayment Model for 30-year mortgage bonds represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. The BMA Prepayment Model does not purport to be either an historical description of the prepayment of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the 2001 Mortgage Certificates. One hundred percent of the BMA Prepayment Model assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans, 100 percent of the BMA Prepayment Model assumes a constant prepayment rate of six percent per year. Multiples will be calculated from this prepayment rate speed e.g., 200 percent of the BMA Prepayment Model assumes prepayment rates will be 0.4 percent per year on month one, 0.8 percent per year in month two, reaching 12 percent per year in month 30 and remaining constant at 12 percent per year thereafter.

Special Redemption From Excess Revenues

The Series 2001 Bonds are subject to redemption prior to maturity and shall be redeemed, in whole or in part, from time to time after July 1, 2002, after giving notice as provided the Trust Indenture, at a redemption price equal to 100% of the principal amount of the Series 2001 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date, from amounts that have been transferred to the 2001 A/B/C Special Redemption Account from the Residual Revenues Fund and the Mortgage Reserve Fund in accordance with the Trust Indenture.

In the event of a redemption from excess Revenues, the Trustee shall select the particular Series 2001 Bonds to be redeemed as follows:

(a) for so long as any Series 1989 A/B Bonds remain Outstanding the Trustee shall apply amounts which have been transferred to the 1988/1989 Residual Revenue Subaccount for redemption of Series 1989 A/B Bonds, until such Series 1989 A/B Bonds are no longer Outstanding; and

(b) if no Series 1989 A/B Bonds remain Outstanding, the Trustee shall apply amounts transferred to the 2001 A/B/C Residual Revenues Account to redeem all Series 2001 Bonds Outstanding on a pro rata basis (provided however that the Premium PAC Term Bonds shall not be redeemed in an amount that would cause the Outstanding amount of the Premium PAC Term Bonds to be less than Premium PAC Term Bonds Outstanding Applicable Amount unless 2001 Series A/B Cumulative Prepayments as of such date exceed the 2001 Series A/B Cumulative Applicable Amount as of such date).

Optional Redemption

The Series 2001 Bonds, other than the Premium PAC Term Bonds, are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after July 1, 2011, at the option of the Department, after giving notice as provided in the Trust Indenture, at a Redemption Price equal to the principal amount of Series 2001 Bonds or portions thereof to be redeemed, plus accrued interest to but not including the redemption date.

The Premium PAC Term Bonds are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on or after July 1, 2011, at the option of the Department after giving notice as provided in the Indenture, at the Redemption Price set forth below (expressed as a percentage of the Principal Amount of the Premium PAC Term Bonds or portions thereof to be redeemed), plus accrued interest to the redemption date, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
July 1, 2011 through June 30, 2012	101%
July 1, 2012 and thereafter	100

Mandatory Sinking Fund Redemption

The Series 2001 Bonds maturing on the dates specified below are subject to scheduled mandatory redemption prior to maturity in the principal amounts and on the dates set forth in the following tables, at a redemption price equal to 100% of the principal amount of Series 2001 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

SERIES 2001A BONDS

Series 2001A Premium PAC Term Bonds Maturing January 1, 2033

Date	Principal Amount	Date	Principal Amount
January 1, 2004	\$110,000	January 1, 2019	\$280,000
July 1, 2004	420,000	July 1, 2019	285,000
January 1, 2005	115,000	January 1, 2020	295,000
July 1, 2005	445,000	July 1, 2020	305,000
January 1, 2006	125,000	January 1, 2021	310,000
July 1, 20067	475,000	July 1, 2021	320,000
January 1, 2007	135,000	January 1, 2022	330,000
July 1, 2007	505,000	July 1, 2022	345,000
January 1, 2008	145,000	January 1, 2023	275,000
July 1, 2008	535,000	July 1, 2023	280,000
January 1, 2009	150,000	January 1, 2024	290,000
July 1, 2009	565,000	July 1, 2024	300,000
January 1, 2010	160,000	January 1, 2025	310,000
July 1, 2010	600,000	July 1, 2025	320,000
January 1, 2011	175,000	January 1, 2026	330,000
July 1, 2011	180,000	July 1, 2026	340,000
January 1, 2012	185,000	January 1, 2027	350,000
July 1, 2012	190,000	July 1, 2027	360,000
January 1, 2013	195,000	January 1, 2028	370,000
July 1, 2013	200,000	July 1, 2028	380,000
January 1, 2014	210,000	January 1, 2029	395,000
July 1, 2014	215,000	July 1, 2029	405,000
January 1, 2015	220,000	January 1, 2030	420,000
July 1, 2015	230,000	July 1, 2030	430,000
January 1, 2016	235,000	January 1, 2031	445,000
July 1, 2016	240,000	July 1, 2031	465,000
January 1, 2017	245,000	January 1, 2032	480,000
July 1, 2017	255,000	July 1, 2032	490,000
January 1, 2018	260,000	January 1, 2033	505,000
July 1, 2018	270,000		

Series 2001A Bonds Maturing January 1, 2033

Date	Principal Amount	Date	Principal Amount
January 1, 2023	\$165,000	July 1, 2028	\$240,000
July 1, 2023	180,000	January 1, 2029	250,000
January 1, 2024	185,000	July 1, 2029	255,000
July 1, 2024	190,000	January 1, 2030	265,000
January 1, 2025	195,000	July 1, 2030	275,000
July 1, 2025	200,000	January 1, 2031	280,000
January 1, 2026	205,000	July 1, 2031	290,000
July 1, 2026	215,000	January 1, 2032	300,000
January 1, 2027	220,000	July 1, 2032	310,000
July 1, 2027	225,000	January 1, 2033	320,000
January 1, 2028	235,000		

Series 2001A Bonds Maturing July 1, 2033

Date	Principal Amount	Date	Principal Amount
January 1, 2023	\$845,000	July 1, 2028	\$1,180,000
July 1, 2023	865,000	January 1, 2029	1,210,000
January 1, 2024	890,000	July 1, 2029	1,255,000
July 1, 2024	920,000	January 1, 2030	1,290,000
January 1, 2025	950,000	July 1, 2030	1,330,000
July 1, 2025	980,000	January 1, 2031	1,375,000
January 1, 2026	1,010,000	July 1, 2031	1,410,000
July 1, 2026	1,040,000	January 1, 2032	1,450,000
January 1, 2027	1,075,000	July 1, 2032	1,500,000
July 1, 2027	1,110,000	January 1, 2033	1,545,000
January 1, 2028	1,140,000	July 1, 2033	2,450,000

SERIES 2001B BONDS

Series 2001B Bonds Maturing July 1, 2016

Date	Principal Amount	Date	Principal Amount
January 1, 2011	\$445,000	January 1, 2014	\$535,000
July 1, 2011	460,000	July 1, 2014	550,000
January 1, 2012	475,000	January 1, 2015	570,000
July 1, 2012	490,000	July 1, 2015	585,000
January 1, 2013	505,000	January 1, 2016	605,000
July 1, 2013	525,000	July 1, 2016	625,000

Series 2001B Bonds Maturing July 1, 2022

Date	Principal Amount	Date	Principal Amount
January 1, 2017	\$645,000	January 1, 2020	\$775,000
July 1, 2017	665,000	July 1, 2020	800,000
January 1, 2018	685,000	January 1, 2021	825,000
July 1, 2018	705,000	July 1, 2021	855,000
January 1, 2019	725,000	January 1, 2022	880,000
July 1, 2019	755,000	July 1, 2022	900,000

SERIES 2001C BONDS

Series 2001C Bonds Maturing July 1, 2015

Date	Principal Amount	Date	Principal Amount
January 1, 2013	\$1,550,000	July 1, 2014	\$1,670,000
July 1, 2013	1,580,000	January 1, 2015	1,530,000
January 1, 2014	1,625,000	July 1, 2015	330,000

The principal amount of the Series 2001 Bonds to be redeemed on each such redemption date pursuant to mandatory sinking fund redemption shall be reduced by the principal amount of any Series 2001 Bonds of the same Series and having the same stated maturity, which (A) at least 45 days prior to mandatory sinking fund redemption date, (1) shall have been acquired by the Department and delivered to the Trustee for cancellation, or (2) shall have been acquired and canceled by the Trustee at the direction of the Department, or (3) shall have been redeemed other than pursuant to mandatory sinking fund redemption, and (B) shall have not been previously credited against a scheduled mandatory sinking fund redemption.

Partial Redemption

In the event that a Series 2001 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2001 Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof, such portion to be determined at random by the Trustee. Upon surrender of any Series 2001 Bond for redemption in part, the Trustee will authenticate and deliver an exchange Series 2001 Bond or Series 2001 Bonds in an aggregate principal amount equal to the unredeemed portion of the surrendered Series 2001 Bond. See "THE SERIES 2001 BONDS - DTC and Book-Entry."

Notice of Redemption

The Trustee shall give notice, in the name of the Department, of the redemption of Series 2001 Bonds to the holders thereof, which notice shall specify the series, maturities, and interest rates of the Series 2001 Bonds to be redeemed, the redemption date and the method and place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2001 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2001 Bonds so to be redeemed, and, in the case of Series 2001 Bonds to be redeemed in part only, such notices shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state any conditions that must be satisfied prior to the redemption date and that on such date there shall become due and payable upon each Series 2001 Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal amount thereof, in the case of Series 2001 Bonds to be redeemed in part only, together with interest accrued to, but not including, the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, to the holders of any Series 2001 Bonds or portions thereof which are to be redeemed, at their last addresses, if any, appearing upon the registry books of the Trustee. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not received by the holder.

Conditional Notices of Redemption

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

Payment of Redeemed Bonds

Notice having been given as provided in the Trust Indenture, the Series 2001 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Series 2001 Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 2001 Bond, without charge to the owner thereof,

for the unredeemed balance of the principal amount of the Series 2001 Bond so surrendered, registered Series 2001 Bonds of like Series, maturity, interest rate and aggregate principal amount in any Authorized Denomination. If, on the redemption date, moneys for the redemption of all the Series 2001 Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as specified in the Trust Indenture, then from and after the redemption date interest on the Series 2001 Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 2001 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Purchase in Lieu of Redemption

The Trust Indenture permits the purchase of Bonds, including the Series 2001 Bonds, in the open market in lieu of redemption of Bonds. Any such purchase may be at a price not exceeding the then applicable redemption price for such Bonds.

DTC and Book-Entry

The Series 2001 Bonds will be available in book-entry form only. Purchasers of the Series 2001 Bonds will not receive certificates representing their interests in the Series 2001 Bonds purchased. The Depository Trust Company, New York, New York ("DTC") will act as Bond Depository for the Series 2001 Bonds. The ownership of one fully registered Series 2001 Bond for each maturity within a Series will be registered in the name of Cede & Co., as nominee for DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Department believes to be reliable, but the Department takes no responsibility for the accuracy or completeness thereof.

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

Purchases of Series 2001 Bonds under the DTC system may be made through brokers and dealers who are, or act through, DTC Participants. Upon such purchase, the DTC Participants will receive a credit balance on the records of DTC. The ownership interest of the actual purchaser of each Series 2001 Bond or such purchaser's nominee (collectively, the "Beneficial Owner") will be recorded in the records of the DTC Participant or Indirect Participant. DTC Participants and Indirect Participants are expected to provide Beneficial Owners with a written confirmation of their purchases containing details of the Series 2001 Bonds acquired. Transfers of ownership interests in the Series 2001 Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Indirect Participants and Beneficial Owners.

BENEFICIAL OWNERS WILL NOT RECEIVE SERIES 2001 BONDS IN DEFINITIVE FORM REPRESENTING THEIR OWNERSHIP INTEREST IN THE SERIES 2001 BONDS AND WILL NOT BE, OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE TRUST INDENTURE. BENEFICIAL OWNERS WILL HAVE NO VOTING RIGHTS UNDER THE TRUST INDENTURE AND CEDE & CO., AS NOMINEE OF DTC, ALONE WILL HAVE VOTING RIGHTS WITH RESPECT TO THE SERIES 2001 BONDS. FURTHER, AS DESCRIBED HEREIN, THE RIGHTS OF THE BENEFICIAL OWNERS OF THE SERIES 2001 BONDS, INCLUDING WITHOUT LIMITATION, THE RIGHT OF BENEFICIAL OWNERS TO RECEIVE NOTICE AND TO CONSENT TO CERTAIN ACTIONS OR OMISSIONS UNDER THE TRUST INDENTURE, ARE IN CERTAIN CASES SUBJECT TO AND DEPENDENT UPON THE ACTIONS AND PROCEDURES OF AND AGREEMENTS AND ARRANGEMENTS AMONG DTC AND THE DTC PARTICIPANTS. BENEFICIAL OWNERS OF THE SERIES 2001 BONDS ARE ADVISED TO CLARIFY AND CONFIRM SUCH ACTIONS, PROCEDURES, AGREEMENTS AND ARRANGEMENTS DIRECTLY WITH THE APPLICABLE DTC PARTICIPANTS.

FOR AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2001 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 2001 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS, EXCEPT AS DESCRIBED HEREIN.

With certain exceptions described herein, the Department and the Trustee may treat and consider DTC or Cede & Co. as the absolute owner of each of the Series 2001 Bonds for the purpose of payment of the principal of and premium, if any, and interest on such Series 2001 Bonds, for the purpose of giving notices with respect to redemption and other matters with respect to such Series 2001 Bonds, for the purpose of registering transfers with respect to such Series 2001 Bonds, for obtaining any consent as to other actions required or permitted to be taken of or by the owners of such Series 2001 Bonds, for purposes of voting, and for all other purposes whatsoever. So long as any Series 2001 Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Series 2001 Bonds and all notices with respect to such Series 2001 Bonds will be made and given, respectively, to or upon the order of DTC.

The Trustee will make payments of the principal or redemption price of and interest on the Series 2001 Bonds to DTC or its nominee, Cede & Co., as the registered owner of the Series 2001 Bonds and such payments will be valid and effective to fully discharge the Department's and the Trustee's obligations to the extent of such payments. The current practice of DTC is to credit the accounts of the DTC Participants immediately upon receipt of moneys in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be in accordance with standing instructions and customary practices such as those which are now the case for municipal securities held by DTC Participants and Indirect Participants in bearer form or registered in "street name" for the accounts of customers and will be the responsibility of such DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee or the Department, subject to any statutory and regulatory requirements as may be in effect from time to time.

SO LONG AS A BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES 2001 BONDS, THE TRUSTEE AND THE DEPARTMENT WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES WITH RESPECT TO SUCH SERIES 2001 BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNER, OF ANY SUCH NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF SUCH SERIES 2001 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON

SUCH NOTICE. Redemption of portions of the Series 2001 Bonds by the Department will reduce the outstanding principal amount of such Series 2001 Bonds held by DTC. In such event, DTC may implement, through its book-entry system, a redemption of such Series 2001 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and the DTC Participants and Indirect Participants may implement a redemption of any such Series 2001 Bonds for the Beneficial Owners. Any such selection of Series 2001 Bonds to be redeemed will not be governed by the Trust Indenture and will not be conducted by the Department or the Trustee. NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 2001 BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2001 BONDS FOR REDEMPTION.

The Department and the Trustee cannot give any assurances that DTC Participants or others will distribute payments of the principal or redemption price of and interest on the Series 2001 Bonds paid to DTC or its nominee, as the registered owner, or distribute any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

For every transfer and exchange of Series 2001 Bonds the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC (or a successor Bond Depository) may determine to discontinue providing its service with respect to the Series 2001 Bonds at any time by giving notice to the Department and discharging its responsibilities with respect thereto under applicable law. In addition, in the event that the Department determines that the Bond Depository is incapable of discharging its duties, or that it is in the best interests of the Department or the owners of the Series 2001 Bonds, the Department may determine to discontinue the use of book-entry transfers through DTC (or a successor Bond Depository). Under such circumstances, based on information received from DTC or any successor Bond Depository as to the Beneficial Owners of the Series 2001 Bonds, definitive bonds will be delivered to the Beneficial Owners in definitive form as provided in the Trust Indenture.

Discontinuation of Book-Entry Only System

In the event that the Book-Entry Only System is discontinued by DTC or the Department, the following provisions will be applicable to the Series 2001 Bonds: Series 2001 Bonds may be exchanged for an equal aggregate principal amount of Series 2001 Bonds in other Authorized Denominations of the same Series, maturity and interest rate upon surrender thereof at the applicable corporate trust office of the Trustee with a duly executed assignment in form satisfactory to the Trustee. The transfer of any Series 2001 Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2001 Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2001 Bonds, the Department and the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, as well as the fee, if any, charged by the Trustee for the transfer or exchange. The Department and the Trustee will not be required to transfer or exchange (a) any Series 2001 Bond for a period of 15 days next preceding an Interest Payment Date or next preceding any selection of Series 2001 Bonds to be redeemed or thereafter until after the mailing of any notice of redemption or (b) any Series 2001 Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 2001 Bond is registered as the absolute owner thereof for all purposes. If any Series 2001 Bond is not presented for payment when the principal or the redemption price therefor

becomes due, or any check representing payment of interest on Series 2001 Bonds is not presented for payment, and if moneys sufficient to pay such Series 2001 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 2001 Bonds (or portion thereof) or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Trustee to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Series 2001 Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Trust Indenture or on or with respect to, such principal, redemption price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas, in accordance with Title 6, Texas Property Code.

THE 1988A MORTGAGE CERTIFICATES AND 1989 A/B MORTGAGE CERTIFICATES

Upon delivery of the Series 2001C Bonds for the purpose of refunding the Refunded Bonds all of the 1988A Mortgage Certificates, plus a prorata portion of the 1989 A/B Mortgage Certificates (based on the Series 1989 A/B Bonds to be refunded) will be transferred to the 2001 A/B/C Mortgage Loan Account. At such time as the Series 1989A Bonds and Series 1989B Bonds have been fully paid, an additional amount of 1989 A/B Mortgage Certificates will be transferred to the 2001 A/B/C Mortgage Loan Account until the amounts so transferred equals the principal amount of Series 2001C Bonds then Outstanding.

As of July 31, 2001, the outstanding principal amount of the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates was \$36,785,642. Substantially all of the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates were acquired between July 1, 1990 and November 23, 1992 and had original terms of twenty-five years. The original aggregate principal amount of the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates was \$117,252,656. The following table reflects information with respect to the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates, as of July 31, 2001:

	<u>Outstanding Principal</u>	<u>Mortgage Rate Range</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Remaining Term (in months)</u>
Series 1988A Mortgage Certificates	\$13,316,983	6.50-9.25%	7.80%	163
Series 1989 A/B Mortgage Certificates	23,468,659	7.69-8.69%	8.42%	159

The following table sets forth estimates of approximate prepayment speeds for three, six and twelve month periods ending July 31, 2001 for the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates with all prepayment speeds stated as a percentage of published BMA Prepayment Model:

	<u>Approx. Prepayment Speed 3 Months Ending 7/31/01</u>	<u>Approx. Prepayment Speed 6 Months Ending 7/31/01</u>	<u>Approx. Prepayment Speed 12 Months Ending 7/31/01</u>
Series 1988A Mortgage Certificates	128%	132%	142%
Series 1989 A/B Mortgage Certificates	200%	163%	173%

The foregoing information has been derived from information regarding the 1988A Mortgage Certificates and 1989 A/B Mortgages Certificates available from Bloomberg L.P. No assurance can be given that the projected weighted average remaining term or the prepayment speed status of the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates at the time of transfer will resemble those characteristics of the 1988A Mortgage Certificates and 1989 A/B Mortgage Certificates.

SECURITY FOR THE BONDS

Pledge of Trust Indenture

The Bonds, including the Series 2001 Bonds, are equally and ratably secured by the Trust Indenture for the equal benefit, protection and security of the owners of the Bonds, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Trust Indenture.

The principal or redemption price of and interest on all Bonds are payable solely from and are secured by a pledge of and lien on the Trust Estate established pursuant to the Trust Indenture, which consists primarily of the following:

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

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

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

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

For purposes of the Trust Indenture, "Revenues" means (i) all amounts paid or required to be paid with respect to principal and interest or otherwise from time to time on the Mortgage Loans and Mortgage Certificates, including Mortgage Loan Principal Prepayments, and including any such amounts held by persons collecting such amounts on behalf of the Department, after deducting any fees required to be paid for accounting, collection and other services required in connection with servicing of the Mortgage Loans (including any servicing fees and guaranty fees of Ginnie Mae and Fannie Mae); (ii) all interest received on or profits derived from investing moneys or securities held in the Funds and paid or to be paid into the Revenue Fund; and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee as part of the Trust Estate pursuant to a Supplemental Indenture. The term "Revenues," however, does not include fees paid to Mortgage Lenders

to service Mortgage Loans; payments made in order to obtain or maintain primary mortgage insurance or guaranties with respect to one or more Mortgage Loans; payments made in order to obtain or maintain fire or other hazard insurance with respect to Mortgage Loans; payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed on mortgage loans; commitment fees; or amounts required to be paid or credited to a borrower or to the United States of America pursuant to applicable federal income tax laws and regulations.

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

The Series 2001 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, nor Fannie Mae, is obligated to pay the principal or redemption price of, or interest on, the Series 2001 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 and Fannie Mae guarantee only the payment of the principal of and interest on the Ginnie Mae Certificates and Fannie Mae Certificates, respectively, when due and do not guarantee the payment of the Series 2001 Bonds or any other obligations issued by the Department.

Reserve Funds

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. However for Bonds issued subsequent to 1997, there is no requirement in the Trust Indenture that additional deposits be made to, or additional amounts be maintained in, the Debt Service Reserve Fund or the Mortgage Reserve Fund. The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are

insufficient funds to pay, when due, principal of and interest on the Series 2001 Bonds or any other Outstanding Bonds. As of March 31, 2001, the Debt Service Reserve Fund requirement for the Bonds was \$1,548,800, and the Mortgage Reserve Fund requirement for the Bonds was \$580,800. As of such date, such Debt Service Reserve Fund and Mortgage Reserve Fund requirements were satisfied, primarily as a result of the allocation to such Funds of investments in Mortgage Certificates held under the Indenture. See "SECURITY FOR THE BONDS - Investment of Funds" and "THE TRUST INDENTURE" herein.

Mortgage Insurance

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

Supplemental Mortgage Security

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

Cashflow Statement and Asset Test

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

later than two and one-half years after the date of filing of the most recent Cashflow Statement. The Department, at its option, may file a revised or amended Cashflow Statement with the Trustee at any time.

The Department has covenanted in the Trust Indenture that it will not make, acquire, refinance or sell Mortgage Loans or Mortgage Certificates or purchase or redeem Bonds, including the Series 2001 Bonds, or take certain other actions permitted under the Trust Indenture, unless such actions are consistent with the assumptions set forth in its most recent Cashflow Statement.

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

Prior Bonds

In addition to the Series 2001 Bonds to be issued, nineteen series of Prior Bonds have been issued pursuant to the Master Indenture and nineteen separate Series Supplements. As of March 31, 2001, fourteen Series of such Prior Bonds were Outstanding in the following principal amounts:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding</u>
Series 1988A	\$ 40,920,000	\$32,075,000 ⁽¹⁾
Series 1989A/B	89,000,000	6,645,000 ⁽²⁾
Series 1998A/B	116,355,000	113,770,000
Series 1999A	25,615,000	20,685,000
Series 1999 B/C/D	140,765,000	87,590,000
Series 2000A	50,000,000	50,000,000
Series 2000B/C/D/E	<u>124,915,000</u>	<u>124,915,000</u>
TOTALS	<u>\$587,570,000</u>	<u>\$435,680,000</u>

⁽¹⁾ \$31,535,000 in principal amount to be refunded with proceeds of the Series 2001C Bonds.

⁽²⁾ \$ 690,000 in principal amount to be refunded with proceeds of the Series 2001C Bonds.

For a more detailed description of the Prior Bonds, please refer to "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Mortgage Loans and Mortgage Certificates

The following table summarizes certain information regarding the Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds. All Mortgage Loans acquired to date under the Trust Indenture are fixed rate loans for terms not exceeding 30 years. For a more detailed examination of the Mortgage Loans and Mortgage Certificates acquired with proceeds of the Prior Bonds, please refer to "APPENDIX F-1 - ADDITIONAL INFORMATION

CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." Unless otherwise specified, all information is as of March 31, 2001.

<u>Series</u>	<u>Mortgage Rate</u>	<u>Mortgage Loans/Certificates</u>	
		<u>Originated</u>	<u>Outstanding⁽¹⁾</u>
Series 1988A	6.50/6.69/7.69/8.69/9.25%	\$ 39,432,829	\$13,901,338
Series 1989A/B	7.69/8.69	77,819,827	25,016,427
Series 1998A/B	5.85	116,272,111	112,499,273
Series 1999A	9.55/8.00/9.25/5.85	69,543,745	20,512,494
Series 1999B/C/D	9.25/8.68/7.68/6.60	132,760,496	70,090,287
Series 2000A	6.95	29,139,866	28,929,917
Series 2000B/C/D/E	6.60	<u>12,436,292</u>	<u>12,371,666</u>
TOTAL		<u>\$477,405,166</u>	<u>\$283,321,402</u>

- (1) Amounts include Mortgage Certificates purchased with monies deposited in the Debt Service Reserve Fund and the Mortgage Reserve Fund.
- (2) Represents the original principal amount of Mortgage Loans and Mortgage Certificates which were transferred upon the refunding of Series 1987A and Series 1987D.

Since the inception of the Department's Residential Mortgage Revenue Bond Program, the Department has foreclosed on approximately 48 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of \$2,455,008. The Department does not continue to hold title to property securing any of such Mortgage Loans. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has entered into a contract with outside contractors to manage, maintain and arrange for sales, in conjunction with real estate brokers, of such real estate owned. See "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING THE DEPARTMENT'S MORTGAGE LOANS AND MORTGAGE CERTIFICATES" for information concerning the Department's current delinquency and foreclosure rates with respect to the Mortgage Loans.

Investment of Funds

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

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

<u>Fund or Account</u>	<u>Approximate Amount Invested (par value)</u>	<u>Average Investment Rate</u>	<u>Investment Maturity Date</u>	<u>Investment Security/ Investment Agreement Provider⁽²⁾</u>
Debt Service Reserve Fund				
Series 1988A	\$870,789.00	7.304 %	11/20/14-12/20/14	Ginnie Mae Mortgage Certificates
Series 1989A/B	267,674.00	7.928	2/20/15	Ginnie Mae Mortgage Certificates
Series 1999A	81,430.00	5.400	4/02/01	CIBC Oppenheimer Repurchase Agreement
Series 1999A	360,077.00	9.000	9/15/16-2/15/17	Ginnie Mae Mortgage Certificates
Mortgage Reserve Fund				
Series 1988A	484,517.00	6.190	4/20/16	Ginnie Mae Mortgage Certificates
Series 1989A/B	100,378.00	8.190	11/20/15	Ginnie Mae Mortgage Certificates
Float Fund⁽¹⁾				
Series 1988A	1,103,420.00	7.845	7/01/18	Citibank GIC
Series 1989A/B	1,430,668.00	7.756	7/01/18	Citibank GIC
Series 1998/1999A	5,012,693.00	5.043	1/01/31	CDC Funding Corp GIC
Series 1999B/C/D	3,893,262.00	6.381	7/01/32	Bayerische Landesbank Girozentrale GIC
Series 2000A	988,806.00	6.323	7/01/31	Trinity Funding Company L.L.P. GIC
Series 2000B/C/D/E	2,303,988.13	6.217	1/01/33	AIG Matched Funding Corp. GIC
Series 2001A/B/C	3,367,886.62	4.710	7/01/33	AIG Matched Funding Corp. GIC
Mortgage Loan Fund				
Series 1999A	951,981.35	5.400	2/01/01	CIBC Oppenheimer Repurchase Agreement
Series 1999 B/C/D	15,847,242.00	6.291	8/15/01	Assured Return Management Corp. GIC
Series 2000A	20,860,134.00	6.810	2/01/02	Trinity Funding Company L.L.P. GIC
Series 2000B/C/D/E	112,478,708.00	6.731	4/01/04	Bayerische Landesbank Girozentrale GIC
Series 2001A/B/C	65,908,000.00	2.540	5/01/03	AIG Matched Funding Corp. GIC

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

⁽²⁾ "GIC" means guaranteed investment contract.

Proceeds of the Series 2001A Bonds and Series 2001B Bonds (\$65,908,000) deposited into the 2001 A/B/C Mortgage Loan Account will be invested with AIG Matched Funding Corp., at an investment rate of 2.540% per annum, with an investment maturity date of May 1, 2003. Moneys in the Float Fund for the Series 2001 Bonds will be invested in a guaranteed investment agreement with AIG Matched Funding Corp., at an investment rate of 4.710% per annum, with an investment maturity date of July 1, 2033.

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

The ability of the Department to make timely payments of principal of and interest on the Series 2001 Bonds and the Prior Bonds, could be affected if the parties to the various investment agreements for the Series 2001 Bonds and the Prior Bonds do not honor their obligations thereunder to repay such moneys and the interest thereon at the times and rates set forth in the respective investment agreements.

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

Additional Bonds

Various series of Bonds, including refunding Bonds, may be issued as provided in the Trust Indenture on a parity with the Bonds of all other series, secured by a pledge of and lien on the Trust Estate. As a condition to the issuance of additional Bonds, including refunding Bonds, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the series of Bonds is validly issued in accordance with the Trust Indenture and the Act. The Department must also deliver to the Trustee a Cashflow Statement which gives effect to the issuance of such additional Bonds as described above under "Cashflow Statement" and a written confirmation from each Rating Agency that the issuance of Bonds of each Series will not adversely affect the rating then in effect on any Outstanding Bonds (determined without regard to any Credit Facility). No additional parity Bonds may be issued unless, upon the issuance of such Bonds, the amounts credited to the Debt Service Reserve Fund and the Mortgage Reserve Fund will be sufficient to maintain the respective reserve requirements. The Department has reserved the right to adopt one or more other bond indentures and to issue other obligations payable from sources other than the Trust Estate or, payable from the Trust Estate, including the Revenues, if the pledge of and lien on the Trust Estate and the Revenues is junior to or subordinate to the pledge of and lien on the Trust Estate and the Revenues to the Bonds.

Sale of Mortgage Certificates and Mortgage Loans

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

Special Mortgage Loans

Special Mortgage Loans are mortgage loans which otherwise meet the requirements of the Code, applicable to mortgage loans financed with the proceeds of qualified mortgage bonds. Special Mortgage Loans will be funded from moneys transferred from the Revenue Fund to the Special Mortgage Loan Fund in amounts, if any, specified in the Cashflow Statement and necessary to maintain the tax-exempt status of the

related Bonds. Special Mortgage Loans will be pledged as additional security for the Bonds, but are not expected to satisfy the Mortgage Loan requirements under the Indenture and may be forgiven upon payment of the related Bonds.

ASSUMPTIONS AND RISKS

Assumptions

On the basis of the Cashflow Statement prepared in connection with the issuance of the Series 2001 Bonds, the Department expects that the scheduled payments, together with Mortgage Loan Principal Prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or redemption price of and interest on the Series 2001 Bonds and all other Prior Bonds Outstanding when due. In arriving at the foregoing conclusions, the Department has included all Bonds but has not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture, unless subordinated, will rank equally and ratably with the Series 2001 Bonds and the Prior Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds.

The maturities of and mandatory sinking fund installments of the Series 2001 Bonds have been established on the basis of the consolidated scheduled payments of the Mortgage Loans (including Mortgage Certificates) under the Trust Indenture. The interest rates on the Mortgage Loans acquired with moneys made available upon the issuance of the Series 2001 Bonds will be established so that, together with payments of principal of and interest on the Mortgage Loans and the Mortgage Certificates outstanding under the Trust Indenture and moneys on deposit in the various funds and accounts under the Trust Indenture (as well as income derived from investments thereof), sufficient Revenues will be expected to be available to pay on a timely basis the principal of and interest on all Bonds outstanding under the Trust Indenture, including the Series 2001 Bonds, and certain other amounts required to be paid under the Trust Indenture. Such expectation is based on, among others, the following assumptions:

(a) moneys held in the Mortgage Loan Fund, the Revenue Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund, and the Residual Revenues Fund will be invested at the rates per annum applicable to each (a portion of the earnings from which may be subject to rebate to the United States Department of Treasury), and timely payments will be made to the Trustee of amounts due under such investments;

(b) the payments on the Mortgage Loans (including the Mortgage Certificates) will be made in full and received by or on behalf of the Department on the 30th day following their scheduled payment dates;

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

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

(e) all of the lendable proceeds of the Series 2001 Bonds will be used to purchase Mortgage Certificates representing Mortgage Loans with terms of thirty (30) years that will provide for payment of principal and interest in approximately equal monthly installments; and

(f) the 2001 Mortgage Certificates will bear a Pass-Through Rate of 4.95% for Non-Assisted Mortgage Loans and 5.45% for Assisted Mortgage Loans.

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

Termination of Mortgage Loans and Mortgage Certificates

The maturities and sinking fund redemption installments of the Series 2001 Bonds were determined on the basis of the assumption that there will be no early terminations of the Mortgage Loans or the Mortgage Certificates relating to the Series 2001 Bonds. The Department expects Mortgage Loans and Mortgage Certificates relating to the Series 2001 Bonds will be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments. All Mortgage Loan Principal Prepayments relating to the Series 2001 Bonds will be deposited in the Revenue Fund and transferred to the Special Redemption Account for use to redeem Series 2001 Bonds or other Bonds in accordance with the Trust Indenture. **Accordingly, the Department anticipates that substantially all of the Series 2001 Bonds will be redeemed prior to their scheduled maturities.**

Federal Guarantee Limits

The dollar amount of commitments to guarantee securities that Ginnie Mae can approve and the dollar amount that FHA and VA can insure or guarantee in any federal fiscal year is limited by statute and administrative procedures. If an appropriation act is not passed in any federal fiscal year or if Ginnie Mae, FHA or VA reach the limits of their respective authority, or if Ginnie Mae, in its sole discretion, or the federal government alters or amends the Ginnie Mae Mortgage-Backed Securities Program in such a way as to prevent the Mortgage Lenders from originating Mortgage Loans during the origination period and the Master Servicer from issuing Ginnie Mae Certificates prior to the acquisition date therefor, the Mortgage Lenders may be unable to originate Mortgage Loans and the Master Servicer may be unable to issue Ginnie Mae Certificates in the anticipated aggregate principal amount. **The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee in amounts contemplated by this financing would result in the early redemption of the Series 2001 Bonds prior to their maturity.** See "THE SERIES 2001 BONDS - Redemption Provisions."

Non-Origination of Mortgage Loans

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

In addition, there exists a risk of non-origination resulting from the reservation for a period of one year of 20% of the lendable proceeds of the Series 2001A Bonds for Mortgage Loans in certain federally designated targeted areas, the reservation for a period of three months of 50% of the lendable proceeds of the Series 2001A Bonds and 70% of the lendable funds made available through the issuance of the Series 2001B Bonds for the purpose of making Mortgage Loans on a regional basis within the State, and the reservation for a period of one year (or such longer period as determined by the Department) of 30% of the lendable funds made available through the issuance of the Series 2001 Bonds for persons of families of very low income (not exceeding 60% of the applicable area median family income). See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, - Regional Reservation and - Very Low Income Reservation" As a result, the pool of potential mortgagors will be limited for such period and economic conditions or conventional mortgage rates may have adversely changed by the end of the set aside period.

The Department is currently purchasing mortgage certificates with the proceeds of its Single Family Mortgage Revenue Bonds and with proceeds of the Prior Bonds pursuant to three separate programs. Mortgage Certificates purchased with the proceeds of its Single Family Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of July 1, 2001:

<u>Active Program</u>	<u>Program Start Date</u>	<u>Mortgage Rate</u>	<u>Mortgage Funds Available</u>	<u>Amounts Purchased</u>	<u>Reservation Amounts⁽¹⁾</u>	<u>Remaining Funds</u>
Program 55	01/17/00	6.60	\$ 64,410,000	\$ 53,456,279	\$ 4,747,855	\$ 6,205,866
Program 55A	05/01/00	6.95	50,000,000	32,180,674	7,240,322	10,579,004
Program 56	11/15/00	6.60	<u>124,915,000</u>	<u>45,951,535</u>	<u>42,308,665</u>	<u>36,654,800</u>
Total			<u>\$239,325,000</u>	<u>\$131,588,488</u>	<u>\$ 54,296,842</u>	<u>\$53,439,670</u>

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

The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee, in the amounts contemplated by this financing will result in redemption of the Series 2001 Bonds prior to their maturity. See "THE SERIES 2001 BONDS - Redemption Provisions."

Availability of Remedies

The remedies available to the owners of the Series 2001 Bonds upon an Event of Default under the Trust Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy laws, the Trust Indenture and the various Program documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2001 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity which permit the exercise of judicial discretion.

THE DEPARTMENT

General

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

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

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act (such as the Series 2001 Bonds) that the State will not limit or alter the rights vested in the Department to fulfill the terms of any agreements made with the holders thereof that would in any way impair the rights and remedies of such holders until such bonds, together with the interest thereon, interest on any unpaid installments of interest and all costs and expenses incurred in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Organization and Membership

Governing Board

Prior to September 1, 2001, the Department was governed by a governing board (the "Board") consisting of nine members who were appointed by the Governor of the State with the advice and consent of the State Senate. However, as a result of amendments to the Act which became effective on September 1, 2001, the Board is now composed of seven public members, appointed by the Governor, with the advice and consent of the State Senate. New Board members initially appointed will hold office for staggered terms of up to six years. Board members thereafter appointed will hold office for six-year staggered terms. Each member serves until their respective successors are 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 amendments to the Act require 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. On September 18, 2001, the

Governor announced the appointment of the six individuals listed below to serve as members of the Board. One position currently remains vacant. Confirmation of each of such newly appointed Board members is required to be considered by the State Senate at its next session whether regular or special.

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

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

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

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

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

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

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

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

Administrative Personnel

The Act provides that the Department is to be administered by an Executive Director to be employed by the Board with the approval of the Governor. The Executive Director serves at the pleasure of the Board, but may also be removed by a newly elected Governor who did not approve the Executive Director's appointment by action taken within 90 days after such Governor takes office. The Executive Director is responsible for administering the Department and its personnel. The Executive Director may employ other employees necessary for the discharge of the duties of the Department, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Department's bonds. The Department's current Executive Director, Daisy Stiner, has announced her resignation from the Department, effective October 12, 2001. The Board is currently accepting applications for the position of Executive Director.

Currently, the Department has 346 employees with 21 being employed in the Department's Housing Finance Division, the division with primary responsibility for the administration of, among other things, bond-financed single family and multi-family programs. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

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

BYRON V. JOHNSON, Director of Bond Finance. Mr. Johnson joined the Department on July 19, 1999 as Director of Bond Finance. In this position, he is responsible for the development and administration of the Department's Single Family and Multifamily Mortgage Revenue Bond programs and the Department's Commercial Paper Program. Mr. Johnson also oversees ongoing compliance monitoring and disclosure requirements related to the Department's bond programs. Before joining the Department, Mr. Johnson was a Vice President in the public finance department of a regional investment bank. Prior to joining the regional investment bank, Mr. Johnson was employed as an Assistant Vice President by a minority-owned investment bank specializing in public finance in the Southeast. Mr. Johnson began his career in the securities industry in 1984 as a compliance examiner with the National Association of Securities Dealers where he conducted financial and operational examinations of NASD member firms. He subsequently was employed by Kidder, Peabody & Co. as a staff auditor and later worked as a senior auditor in the Corporate Audit Department at Shearson Lehman Brothers. Mr. Johnson earned an M.B.A. from the Fuqua School of Business at Duke University in 1993 and a Bachelor of Business Administration degree in Accounting from Savannah State University in 1984. Mr. Johnson currently holds Series 3 (Commodities), Series 7 (General Securities), and Series 53 (Municipal Securities Principal) securities licenses.

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

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

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

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

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 57

The Department has established a Residential Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). The component of the program relating to the Series 2001 Bonds and will be designated as the Department's Bond Program No. 57 ("Program 57"). In connection with the issuance of the Series 2001 Bonds and the outstanding Prior Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or Mortgage Certificates backed by Mortgage Loans) originated by commercial banks, savings and loan associations, mortgage companies, and other qualified institutions (the "Mortgage Lenders"). As a result of the issuance of the Series 2001 Bonds, the Trustee on behalf of the Department has agreed to purchase 2001 Mortgage Certificates.

Mortgage Loans evidenced by the 2001 Mortgage Certificates will bear interest at the rates established upon the issuance of the Series 2001 Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Trust Indenture. The purchase price for the 2001 Mortgage Certificates will be 103.025% of par (plus accrued interest) for Ginnie Mae 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 and 99.525% of par (plus accrued interest) for Fannie Mae Certificates with respect to Non-Assisted Mortgage Loans. The Department will purchase the 2001 Mortgage Certificates during a Certificate Purchase Period which will expire on May 1, 2003, but which may be extended to a date no later than February 1, 2005, upon compliance with the terms of the Series 2001 A/B/C Series Supplements.

General

The guidelines adopted by the Department from time to time in connection with the Program establish the eligibility of lenders to participate in the Program, time limitations with respect to commitments for and originations of Mortgage Loans, the types of Mortgage Loans eligible for purchase by the Servicers or Master Servicers, the eligibility of mortgagors, the requirements for dwellings which secure Mortgage Loans, the fees which a Mortgage Lender may charge to originate a Mortgage Loan, the fees which a lending institution may charge for servicing a Mortgage Loan, as well as other aspects of the Program. In connection with each phase of the Program, the Department executed or will execute origination, sale and servicing agreements or mortgage origination agreements and program supplements (collectively, the "Agreement") with the respective Mortgage Lenders. The Agreement obligated or will obligate the Mortgage Lenders to use their best efforts to originate Mortgage Loans in conformity with the guidelines. Prior to the acquisition by the Master Servicer, each Mortgage Loan will be reviewed by the Department for compliance with applicable provisions of federal income tax laws and by the Master Servicer for compliance with the Department's guidelines. 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 guidelines 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 57 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.

Down Payment and Closing Costs Assistance

In connection with the use of Program 57 funds to finance Mortgage Loans to eligible borrowers, down payment and closing costs assistance will be available on a first-come, first-served basis, to very low income (60% of AMFI - see APPENDIX G) borrowers wherever located as well as to low income (80% of AMFI) borrowers in federally targeted areas (as described below under "Targeted Area Reservation"). Down payment and closing costs assistance is required to be applied first to payment of closing costs and then to the borrower's down payment with respect to the Mortgage Loan. The maximum amount of down payment and closing costs assistance available will be 4% of the amount of the Mortgage Loan and no second lien will be required. The Department estimates that sufficient down payment and closing costs assistance funds will be available for 50% of the total Program allocation.

Targeted Area Reservation

For the first twelve months of Program 57 (commencing on the date proceeds are first made available to finance Mortgage Loans, which is anticipated to be November 1, 2001), 20% of the lendable proceeds of the Series 2001A Bonds will be required to be reserved for Mortgage Loans made in certain targeted areas. See "TAX MATTERS - Federal Income Tax Requirements - Targeted Area Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a Mortgage Loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 2001 Mortgage Certificates representing any Mortgage Loans made to eligible borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than 2% of the amounts available to make mortgage loans have been used to originate mortgage loans in such targeted areas. However, in its most recent programs, approximately 7% to 13% of amounts available have been used to originate mortgage loans in such targeted areas.

Regional Reservation

For the first three months of Program 57, the Department is requiring that 50% of the lendable proceeds of the Series 2001A Bonds and 70% of the lendable funds made available through the issuance of the Series 2001B Bonds be reserved to make Mortgage Loans on a regional basis within the eleven uniform state service regions into which the State is divided. The allocation among regions will be based upon relative populations of such regions. After such three month period, all funds will be available on a statewide basis.

Very Low Income Reservation

For the first one year period of Program 57 (or such longer period as determined by the Department), the Department is requiring that 30% of the lendable proceeds of the Series 2001A Bonds and 30% of the lendable funds made available as a result of the issuance of the Series 2001B Bonds will be set aside for Mortgage Loans for individuals and families of very low income (not exceeding 60% of applicable median family income). See "APPENDIX G - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS." After such one-year period, Mortgage Lenders may make Mortgage Loans to any eligible borrowers and the Trustee may use any remaining reserved funds to purchase 2001 Mortgage Certificates representing Mortgage Loans made to any eligible borrowers.

Community Home Buyer's Program

Pursuant to Fannie Mae requirements, in connection with Program 57, Mortgage Lenders will make available to all first time homebuyers participating in Program 57 whose Mortgage Loans are backed by Fannie Mae Certificates a comprehensive educational program known as the Community Home Buyer's Program (the "Community Home Buyer's Program"). The Community Home Buyer's Program provides more flexible loan underwriting than otherwise may be available. To qualify for the Community Home Buyer's Program, the mortgagor must first participate in home loan counseling seminars which will be made available on an on-going basis throughout Program 57. The seminars cover: (1) how to purchase a home; (2) budgeting; (3) evaluating the mortgagor's current ability to repay a mortgage; (4) homeownership planning; (5) loan closing; (6) home maintenance; and (7) avoiding a default.

Eligible Borrowers

Each Mortgage Loan is required to be made to a person whose family income does not exceed the income limits established by the Department from time to time. In addition, to be eligible for a Mortgage Loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such Mortgage Loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans, certain exception loans hereinafter described, and certain homes falling into the Contract for Deed Exception, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the Mortgage; and (iii) who has not had an existing mortgage on the residence (other than a mortgage falling into the Contract for Deed Exception) to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than certain permitted temporary financing mortgages. The Department, subject to the requirements of applicable provisions of federal income tax law and applicable regulations, may approve a limited number of exception loans that do not satisfy the requirement described in clause (ii) in the immediately preceding sentence. In addition to the above requirement, thirty percent (30%) of the funds made available through Program 57 will be restricted for approximately one year from the beginning of Program 57 (or such longer period as determined by the Department) for individuals and families of very low income (not exceeding 60% of applicable median family income). See "Very Low Income Reservation" above and "APPENDIX G - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Property

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

Eligible Mortgage Loans

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

- (a) Each Mortgage Loan must be a loan to provide financing, whether interim or permanent or both, for the acquisition, construction, rehabilitation or improvement of residential

housing to be owned and occupied by persons and families of low income and persons and families of moderate income, as determined by the Department in accordance with the Act;

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

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

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

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

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

(g) Each Mortgage Loan shall have such other characteristics or be secured by such Supplemental Mortgage Security (as specified in a Supplemental Indenture) such that the making, acquisition or refinancing thereof under the Trust Indenture and the inclusion thereof a part of the Trust Estate will not impair, in and of itself, any rating on the Bonds then in effect, as evidenced by a letter from each Rating Agency.

Compliance with Tax Law and Program Guidelines

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

requirements set forth immediately above; and (vii) carrying out such additional verification procedures as may be reasonably requested by the Department, its designated compliance agent, or the Trustee. If any Mortgage Loan fails to meet the guidelines established by the Department, the originating Mortgage Lender will be required to correct such failure within a reasonable time after such failure is discovered by either repurchasing the non-qualifying Mortgage Loan in full or by replacing the non-qualifying Mortgage Loan with a Mortgage Loan which meets the applicable requirements.

Compliance Agent

The Master Servicer will act as a Compliance Agent for Program 57 to review and examine, or cause to be reviewed and examined, certain affidavits, certificates and other documents submitted by each Mortgage Lender in connection with the Mortgage Loans for compliance with the requirements of applicable federal tax law. In its capacity as Master Servicer, the Master Servicer is responsible for making determinations with respect to compliance of such documents with requirements of the Department and the Program. Such requirements primarily relate to, among other things, compliance with FHA, RHS or VA requirements, as applicable, compliance with the Ginnie Mae Guide, the Fannie Mae Guide, and the applicable Program Supplement, compliance of the Mortgage Loans with the required terms thereof.

Servicing

General

The servicers for Mortgage Loans included in Mortgage Certificates are referred to herein individually as "Master Servicer" and collectively, as "Master Servicers." The Department has selected Countrywide Home Loans, Inc. ("Countrywide") to act as the Master Servicer for all Mortgage Loans under Program 57. The Department has previously contracted with Countrywide to act as the Master Servicer for Mortgage Loans financed with proceeds of the Series 1999 B/C/D Bonds (the "1999 B/C/D Mortgage Loans"), the Series 2000A Bonds (the "2000A Mortgage Loans"), and the Series 2000 B/C/D/E Bonds (the "Series 2000 B/C/D/E Mortgage Loans"). The Department contracted with Texas State Affordable Housing Corporation ("TSAHC") to act as the Master Servicer for Mortgage Loans financed with proceeds of the Series 1998/1999A Bonds (the "1998/1999A Mortgage Loans"). TSAHC, in turn, has contracted with Countrywide Home Loans, Inc., as sub-servicer, to carry out the servicing responsibilities with respect to 1998/1999A Mortgage Loans. Mitchell Mortgage Corporation ("MMC") and First Nationwide Mortgage Corporation ("First Nationwide") act as the Master Servicer for all other Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1987A Mortgage Loans, which are serviced by the Mortgage Lenders. The Mortgage Lenders servicing the 1987A Mortgage Loans and any other Mortgage Lenders servicing Mortgage Loans not included in Mortgage Certificates in the future are referred to herein individually as "Servicer" and collectively, as "Servicers". The Mortgage Lenders servicing the 1987A Mortgage Loans are listed in "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

In connection with 1987A Mortgage Loans, the Servicers service the 1987A Mortgage Loans and the Department acts as an administrator, monitoring the Servicers' activities and remittances to the Trustee. The Department maintains a schedule of anticipated receipts which each Servicer is expected to remit to the Trustee. The Servicers report to the Department any delinquent payments and prepayments. The Department's computerized management information system reconciles Trustee receipts with Servicer reported remittances, reconciles loan amortization, monitors delinquencies and foreclosure actions, and monitors Servicer performance. Since the proceeds of the Prior Bonds, other than the Series 1987A Bonds, were used, and the funds made available through the issuance of the Series 2001 Bonds will be used, to purchase Mortgage Certificates, the Department does not act as an administrator with respect to Mortgage Loans backed by Mortgage Certificates but monitors the actions of the Master Servicers.

Servicing of the Mortgage Loans Evidenced by Mortgage Certificates

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

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

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

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

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

Each Servicer is required to be a FHA-approved mortgagee and/or a Fannie Mae-, RHS- or VA-approved seller and servicer of Mortgage Loans. Each Servicer must service Mortgage Loans in accordance with the servicing standards set forth by the Department as such standards are specifically modified by the Agreement, the Department or the lender's manual published by the Department. Each Servicer is required to service the Mortgage Loans sold by it to the Department unless, prior to the execution of the Agreement, the Department directs the assignment of servicing to another Servicer. As compensation for such services,

a Servicer is entitled to receive a monthly servicing fee of between .25 and .375 percent of the unpaid principal balance of each Mortgage Loan serviced. For Mortgage Loans delinquent 15 days or more, late charges may be collected and retained by the Servicers as permitted by law. A Servicer is required to pay all expenses incurred by it in connection with its servicing activities (including maintenance of its errors and omissions insurance policy and fidelity bond). A Servicer may, with the prior written consent of the Department, assign its servicing rights and obligations to another Servicer in good standing under the Program.

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

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

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

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

The Master Servicers

Countrywide Home Loans, Inc. ("Countrywide") has been selected by the Department to act as Master Servicer for 2001 Mortgage Loans, and is acting as Master Servicer for 1999 B/C/D Mortgage Loans, 2000A Mortgage Loans and 2000B/C/D/E Mortgage Loans. In addition, Countrywide is sub-servicer for the 1998/1999A Mortgage Loans. As of March 31, 2001, Countrywide served as Master Servicer for the Department for 1,222 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance of \$89,148,299. Countrywide is engaged primarily in the mortgage banking business and, as such, originates, purchases, sells and services mortgage loans. Countrywide is a wholly-owned subsidiary of Countrywide Credit Industries, Inc. ("CCII"). CCII is a publicly-held corporation, the common stock of which is listed on the New York Stock Exchange and the Pacific Stock Exchange. CCII is subject to the information requirements of the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by CCII can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Offices of the SEC located at 7 World Trade Center, 13th Floor, New York, New York 10048-1102 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements, and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

The Master Servicer for 1998/1999A Mortgage Loans is Texas State Affordable Housing Corporation ("TSAHC"). Texas Star Mortgage ("TSM") is the registered business name of TSAHC and is a non-profit mortgage banking company engaging in single and multi-family lending to targeted rural and under served areas in Texas. As of March 31, 2001, TSM participates as Master Servicer for the Department for 1,537 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance in the amount of \$112,499,273. TSM was incorporated under the Texas Non-Profit Corporation Act, Article 1396.1.01 et seq., Vernon's Annotated Texas Civil Statutes, as amended and its purpose and mission are set forth by the 75th Texas Legislature. TSM is not a State agency. However, TSM is subject to significant state oversight by the State Auditor's Office, Texas Bond Review Board and Sunset Commission. TSM is an approved lender for FHA, a Ginnie Mae approved issuer of single family multi-family mortgage backed securities, and an approved seller/servicer for FNMA and FHLMC.

First Nationwide Mortgage ("First Nationwide") is the Master Servicer for the Mortgage Loans financed with proceeds of the Prior Bonds other than Mortgage Loans for which Countrywide, TSAHC, or Mitchell Mortgage Company acts as Master Servicer. As of March 31, 2001, First Nationwide participates as Master Servicer for the Department for 304 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance of \$12,654,719. First Nationwide is a wholly owned subsidiary of California Federal Bank, a federal savings bank. First Nationwide is involved in the mortgage banking business, with a focus on a wholesale lending operation and mortgage loan servicing. First

Nationwide is an approved FHA, VA, and USDA-RD lender, a Ginnie Mae approved issuer/servicer for mortgage-backed securities guaranteed by Ginnie Mae and a FHLMC-approved seller/servicer for mortgage-backed securities guaranteed by Fannie Mae.

Mitchell Mortgage Company ("MMC") is the Master Servicer for the Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1987A Mortgage Loans, which are serviced by the Mortgage Lenders and other than Mortgage Loans for which Countrywide, TSAHC, or First Nationwide acts as Master Servicer. As of March 31, 2001, MMC participates as Master Servicer for the Department for 1,798 Mortgage Loans financed with the proceeds of the Prior Bonds, which Mortgage Loans had an outstanding principal balance in the amount of \$63,881,905. MMC is a limited liability company located in The Woodlands, Texas and is wholly owned subsidiary of Southwest Bancorporation of Texas, Inc. MMC is engaged in the mortgage banking business, including the origination and purchase of residential and commercial mortgage loans to sell to investors with servicing rights retained. MMC has been a full service mortgage banking company for over 25 years and is an approved lender for FHA, a Ginnie Mae approved issuer of single family and multi-family mortgage backed securities, and an approved seller/servicer for FNMA and FHLMC.

THE TRUST INDENTURE

General

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

Funds and Accounts

The following Funds have been established under the Master Indenture: Mortgage Loan Fund; Cost of Issuance Fund; Revenue Fund; Interest Fund; Principal Fund; Special Redemption Fund; Debt Service Reserve Fund; Residual Revenues Fund; Mortgage Reserve Fund; and Expense Fund. In addition, the Twentieth Supplemental Indenture establishes the 2001 A/B/C Rebate Fund, a 1988/1989 Revenue Subaccount within the 2001 A/B/C Revenue Account, a Residual Revenues Subaccount within the 2001 A/B/C Residual Revenues Account, and a 2001 A/B/C Down Payment Assistance Subaccount within the 2001 A/B/C Mortgage Loan Account of the Mortgage Loan Fund.

The Series Supplements create within each Fund separate accounts for each Series or related Series of Bonds. The accounts so created do not grant a priority of one Series of Bonds over that of any other Series of Bonds, but are for accounting purposes only. The Series 2001A/B/C Supplements do not create separate accounts in the Debt Service Reserve Fund or the Mortgage Reserve Fund for the Series 2001 Bonds as no amounts will be contributed to such Funds in connection with the Series 2001 Bonds.

Mortgage Loan Fund

The Trustee is required to apply amounts in the Mortgage Loan Fund to pay the costs of making, acquiring, or refinancing Mortgage Loans, including the acquisition of Mortgage Certificates, including accrued interest thereon, if so directed in a letter of instructions from the Department. Any such disbursements are required to be within the certificate purchase period relating to the particular Series of Bonds. The Trustee

is required to transfer amounts in the Mortgage Loan Fund relating to an account established for each Series of the Bonds to the Special Redemption Fund at the end of each Mortgage Loan origination period for such Series to pay the redemption price of Bonds of each Series to be redeemed or the purchase price of Bonds to be purchased. To the extent required by the provisions of the Master Indenture summarized below under the subheading "Withdrawal from Funds to Pay Debt Service", amounts in the Mortgage Loan Fund may be applied to the payment of principal or redemption price of and interest on the Bonds.

Cost of Issuance Fund

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

Revenue Fund

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

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

- (a) first, to the Interest Fund, an amount, if any, which, when added to any amounts already on deposit therein, will equal the amount of interest to become due and payable on the Bonds on such interest payment date or redemption date;
- (b) second, to the Principal Fund, an amount which, when added to any amounts already on deposit therein, will equal the principal amount of all Bonds maturing on such interest payment date and the Redemption Price of all Bonds becoming subject to scheduled mandatory redemption on such redemption date;
- (c) third, to the Expense Fund, the amount or amounts specified in the Series Supplements applicable to the Bonds then Outstanding as being necessary to pay Department Expenses consisting of amounts to be paid to obtain or maintain Supplemental Mortgage Security;
- (d) fourth, to the Debt Service Reserve Fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the Debt Service Reserve Fund Requirement;

(e) fifth, to the Mortgage Reserve Fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the Mortgage Reserve Fund Requirement;

(f) sixth, to the Expense Fund, the amount then required for the payment of Department Expenses (other than as described in clause (c) above), but not in excess of the maximum amount specified in the applicable Series Supplements;

(g) seventh, to the Special Mortgage Loan Fund, the amount, if any, specified in the most recent Cashflow Statement as required by the Series Supplement to maintain the tax-exempt status of the Bonds; and

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

Interest Fund and Principal Fund

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

Special Redemption Fund

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

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

Debt Service Reserve Fund and Mortgage Reserve Fund

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

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

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

Expense Fund

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

Residual Revenues Fund

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

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

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

Special Mortgage Loan Fund

As a result of the issuance of the Series 1998/1999A Bonds, the Tenth Series Supplement established a Special Mortgage Loan Fund as a separate fund pledged (unless withdrawn to make Special Mortgage Loans) to and available for payment of debt service on the Bonds. In the event of any shortfall in funds available to

pay any debt service on the Bonds, the Depository shall, upon the request of the Trustee, transfer to the Trustee from the Special Mortgage Loan Fund any amount necessary to provide sufficient funds to pay the amount then due and owing. Moneys on deposit in the Special Mortgage Loan Fund may be withdrawn by the Department for the purpose of acquiring from mortgage lenders Special Mortgage Loans (including participations therein).

Withdrawals from Funds to Pay Debt Service

If on any interest payment date on the Bonds, after giving effect to the transfers from the Revenue Fund described above, the amount in the Interest Fund or the Principal Fund is less than the amount required to make interest and principal payments then due, the Trustee shall transfer from the following funds in the following order of priority the amount of such deficit and apply such amount to pay interest and principal as necessary: (i) Residual Revenues Fund; (ii) Special Redemption Fund; (iii) Mortgage Reserve Fund; (iv) Mortgage Loan Fund; and (v) Debt Service Reserve Fund.

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

Investments

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

Interest earned from investing any moneys in any Fund or profits realized from any investments in such Fund are required to be retained in such Fund until it contains the amount required by the Trust Indenture to be deposited therein; thereafter such earnings and profits, net of any losses (except that which represents a return of accrued interest paid in connection with the purchase by the Department, the Trustee or any Depository of any investment), are required to be transferred to the Revenue Fund.

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

Other Department Covenants

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

Events of Default

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

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

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

Trustee

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

The Department is required to pay reasonable compensation to the Trustee, any Depositories and any paying agent (other than the Ginnie Mae Paying Agent) for all services rendered under the Trust Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their

attorneys, agents and employees, incurred in and for the performance of their powers and duties under the Trust Indenture.

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

Depositories

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

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

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

Supplemental Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, a supplemental Indenture may be executed and delivered by the Department and the Trustee, without the consent of any Bondholders: (i) to authorize Bonds of a Series and to specify the matters relative to such Bonds which are not contrary to or inconsistent with the Trust Indenture; (ii) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Trust Indenture; (iii) to insert such provisions clarifying matters or questions arising under the Trust Indenture as are necessary or desirable and are not contrary to or inconsistent with the Trust Indenture as theretofore in effect; (iv) to grant to or confer upon the Trustee for the benefit of the Bondholder any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Trustee; (v) to close the Trust Indenture against, or provide limitations on, the delivery of Bonds; (vi) to add to the covenants of the Department in the Trust Indenture other covenants which are not inconsistent with the Trust Indenture; (vii) to add to the restrictions in the Trust Indenture other restrictions to be observed by the Department which are not inconsistent with the Trust Indenture; (viii) to surrender any right, power or privilege reserved to or conferred upon the Department by

the terms of the Trust Indenture that is not inconsistent with the Trust Indenture; (ix) to confirm the subjection to any lien or pledge created by the Trust Indenture of the Trust Estate or any other moneys; (x) to modify any of the provisions of the Trust Indenture in any other respect, effective only after all Bonds of any Series Outstanding at the date of adoption of such Supplemental Indentures shall cease to be outstanding; (xi) to amend the Trust Indenture to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; (xii) to add to the definition of Investment Securities in accordance with the provisions of such definition; or (xiii) to make any other change in the Trust Indenture which does not, in the opinion of the Trustee, materially and adversely affect the rights of the holders of the Bonds.

Amendment of Indenture with Consent of Bondholders

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

Defeasance

If the Department pays irrevocably or causes to be paid irrevocably, or there otherwise is paid, to the owners of all Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Trust Indenture, then the pledge of the Trust Estate under the Trust Indenture and all covenants, agreements and other obligations of the Department to the Bondholders, will thereupon terminate.

Bonds or interest installments for the payment or redemption of which moneys are held in trust by the Trustee or any paying agent at the maturity or redemption date thereof will be deemed to have been paid within the meaning of the Trust Indenture. In addition, all Outstanding Bonds of any Series will be deemed to have been paid within the meaning of the Trust Indenture if: (i) in case any of the Bonds are to be redeemed on any date prior to their maturity, the Department has given to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date; (ii) there has been deposited with the Trustee or any paying agent either moneys in an amount which are sufficient, or Government Obligations not subject to redemption prior

to the maturity thereof, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or any paying agent at the same time, are sufficient, to pay when due the principal or redemption price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be; and (iii) in the event said Bonds are not to be redeemed within the next succeeding 60 days, the Department has given the Trustee irrevocable instructions to give a notice to the owners of such Bonds that the deposit required by (ii) above has been made with the Trustee or paying agent and that said Bonds are deemed to have been paid in accordance with the Trust Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, on said Bonds.

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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

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

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

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Series 2001 Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) interest on the Series 2001A Bonds and the Series 2001B Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, and (iii) interest on the Series 2001C Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 2001 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include the various mortgage eligibility, arbitrage, targeted area, recapture, use of proceeds and information reporting requirements discussed more fully below under the caption "Federal Income Tax Requirements." Bond Counsel's opinion will assume continuing compliance with the procedures, safeguards and covenants of the Servicer in the Trust Indenture and the Program Documents pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Series 2001 Bonds for federal income tax purposes, and in addition, will rely on representations by the Department, the Underwriters, the Servicer, and the Mortgage Lenders with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, respectively, which representations Bond Counsel has not independently verified. Bond Counsel has further relied on the report (the "Report") of Causey Demgen & Moore Inc., certified public accountants, regarding the mathematical accuracy of certain computations. If the Department, a Mortgage Lender, or the Servicer fails to comply with such procedures, safeguards and covenants or if such representations or the Report should be determined to be inaccurate or incomplete, interest on the Series 2001 Bonds could become taxable from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26% of so much of such taxable excess as does not exceed \$175,000 plus 28% of so much of such taxable excess as exceeds \$175,000. The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series 2001A Bonds and the Series 2001B Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The Code further provides, however, that for purposes of this alternative minimum tax the term "private activity bond" does not include any refunding bond if the original bond was issued before August 8, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series 2001C Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. Notwithstanding the foregoing, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC OR FASIT) includes 75% of the amount by which a corporation's adjusted current earnings" exceeds

its other "alternative minimum taxable income." Because interest on tax-exempt obligations, including refunding bonds such as the Series 2001C Bonds, is included in a corporation's "adjusted current earnings," ownership of the Series 2001C Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2001 Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, acquisition, ownership or disposition of, the Series 2001 Bonds.

Prospective purchasers of the Series 2001 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 2001 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to its attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2001 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2001 Bonds could adversely affect the value and liquidity of the Series 2001 Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Federal Income Tax Requirements

General

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

minimum period of time for owner financing of residences located within certain targeted areas, as described more fully below under the subheading "Targeted Area Requirement;" (iii) certain arbitrage limitations described more fully below under the subheading "Requirements Related to Arbitrage" must be satisfied; (iv) certain reporting requirement as set forth more fully below under the subheading "Reporting Requirements" must be satisfied; and (v) certain requirements for informing mortgagors regarding the recapture of a portion of the proceeds from the disposition of certain residences as described more fully below under the subheading "Recapture Requirements" must be satisfied.

In addition, to be "qualified mortgage bonds," the costs of issuance financed by an issue of bonds cannot exceed 2% of the proceeds of such issue. Further, the amount of such an issue of bonds, other than certain refunding bonds, when added to the amount of all other private activity bonds issued within the State during calendar year 2001 must not exceed the unified volume cap for private activity bonds imposed by the Code and applicable regulations. An allocation of the unified volume cap is not required for refunding bonds if the maturity date of the refunding bond is not later than the date 32 years after the date on which the refunded bond was issued (or in the case of a series of refundings, the date on which the original bond was issued) and to the extent that the amount of such refunding bond does not exceed the outstanding amount of the refunded bond.

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

Mortgage Eligibility Requirements

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

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

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

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

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

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

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

Targeted Area Requirement

The Code requires that either (a) an amount equal to at least 20% of the lendable proceeds of an issue of qualified mortgage bonds or (b) an amount equal to 40% of the average annual aggregate principal amount of mortgages executed during the immediately preceding three calendar years for single family owner occupied residences in the targeted area, if such amount is less, must be reserved, for at least one year from the date such proceeds are first made available to purchase mortgage loans, for the purchase of mortgage loans to provide financing for residences located within one or more targeted areas consisting of census tracts identified by the United States Treasury Department as having a substantial concentration of lower-income persons and areas of chronic economic distress designated by the State and approved by HUD. The State, at the request of the Department, has designated and HUD and the Secretary of the Treasury have approved, certain "areas of chronic economic distress" within the State. In addition, the Department has determined that there are "qualified census tracts" within the State. The Department initially has reserved 20% of the lendable proceeds of the Series 2001A Bonds for Targeted Area Residences.

Requirements Related to Arbitrage

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

The Code also requires the issuer to pay to the United States Treasury certain investment earnings on non-mortgage investments, to the extent that such investment earnings exceed the amount that would have been earned on such investments if the investments were earning a return equal to the yield on the Series 2001 Bonds to which such non-mortgage investments relate.

Reporting Requirements

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

Redemption Requirements

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

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

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

Recapture Requirements

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

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

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

Compliance with Tax Requirements

The Code provides that the arbitrage and certain other requirements are deemed to be met if the issuer attempts in good faith to meet such requirements and any failure to meet such requirements is due to inadvertent error. With respect to the mortgage eligibility requirements, however, the Code provides that such requirements are deemed to be met only if: (i) the issuer attempts in good faith to meet such requirements by establishing reasonable procedures and making reasonable investigations before the mortgage loans were executed; (ii) at least 95% of the mortgages, by aggregate principal amount, meet all the mortgage eligibility

requirements at the time of execution or assumption; and (iii) any failure to meet such requirements is corrected within a reasonable period of time after such failure is discovered. In determining whether or not 95% of the mortgage loans satisfy the mortgage eligibility requirements, the issuer is entitled to rely upon affidavits of the mortgagors and sellers of residences financed with the mortgage loans and upon federal income tax returns of the mortgagors, even if the relevant information in such affidavits and returns ultimately proves to be false, unless the issuer knows or has reason to know that such information is false.

The Department has covenanted in the Trust Indenture and the Mortgage Lenders and the Master Servicer have covenanted in the Program Documents to comply with the above-described requirements of the Code as applied to the Series 2001 Bonds and to establish and follow procedures and safeguards sufficient to ensure compliance with such requirements. Nevertheless, if the Department, a Mortgage Lender, or the Master Servicer should fail to comply with such covenants, interest on the Series 2001 Bonds could become includable in gross income for federal income tax purposes from the date of issuance thereof, regardless of the date on which the event causing such includability occurs.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of October 1, 2001 (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 2001 Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2001 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 2001 Bonds had such Eligible Borrower been known at the time of the offering of the Series 2001 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, 2000 and 1999" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), and "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES" and "APPENDIX F-2 - OTHER INDEBTEDNESS OF THE DEPARTMENT." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 2001. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Department may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the Department commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Department will provide unaudited financial statements within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D-1 or such other accounting principles as the Department may be required to employ from time to time pursuant to state law or regulation.

The Department's current Fiscal Year will end on August 31, 2001. Accordingly, it is required to provide updated information by the last day of February in the year 2002 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 2001 Bonds, if such event is material to a decision to purchase or sell Series 2001 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2001 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 2001 Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

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

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2001 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 2001 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 2001 Bonds in the primary offering of the Series 2001 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 2001 Bonds consent to such amendment or (b) a person that is unaffiliated with the Department (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Holders and beneficial owners of the Series 2001 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 2001 Bonds in the primary offering of such Series 2001 Bonds.

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

Duties, Immunities and Liabilities of Trustee

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

Compliance with Prior Continuing Disclosure Agreements

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

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings to the Series 2001 Bonds of "Aaa" and "AAA," respectively. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings do not represent recommendations to buy, sell, or hold the Series 2001 Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of the ratings.

There is no assurance that any ratings assigned to the Bonds will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2001 Bonds.

UNDERWRITING

The Series 2001 Bonds (except for the Series 2001A Bonds maturing on January 1, 2033, and bearing interest at a rate of 5.35% (the "Placed Bonds"), which are being placed directly with Fannie Mae) are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters have jointly and severally agreed, pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"), to purchase all of the Series 2001 Bonds other than the Placed Bonds (collectively, the "Underwritten Bonds") at a total purchase price of \$96,813,000, plus accrued interest on the Underwritten Bonds. The Placed Bonds are being sold directly to Fannie Mae pursuant to the Bond Purchase Agreement at a price equal to the principal amount thereof, plus accrued interest thereon. The Underwriters will receive a fee (which includes a placement fee with respect to the Placed Bonds) of \$834,279.75 in connection with the Series 2001 Bonds. The Bond Purchase Agreement provides, among other things, that the Underwriters' or Fannie Mae's respective obligations to make such purchase are subject to certain terms and conditions set forth in such Bond Purchase Agreement, including the approval of certain legal matters by their respective counsel and certain other conditions. The initial public offering prices of the Underwritten Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Underwritten Bonds offered to the public to certain dealers (including dealers depositing the Underwritten Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices other than the public offering prices stated on the inside front cover hereof.

FINANCIAL ADVISOR

Dain Rauscher Incorporated (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 2001 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.

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, 2000 and 1999 included in this Official Statement have been audited by KPMG LLP, independent certified public accountants, and Richard Mendoza, independent certified public accountant, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG LLP and Richard Mendoza .

The unaudited interim financial statements of the Department for the seven-month period ended March 31, 2001 are included in Appendix D-2 to this Official Statement.

THE SERIES 2001 BONDS ARE SECURED ONLY BY THE ASSETS AND REVENUES DESCRIBED UNDER THE CAPTION "SECURITY FOR THE BONDS" AND NOT BY ANY OTHER SOURCE.

LITIGATION MATTERS

The Department is expected to deliver a certificate upon the closing and delivery of the Series 2001 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 2001 Bonds, or in any way contesting or affecting the validity of the Series 2001 Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 2001 Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 2001 Bonds or such pledge or application of moneys and security.

LEGALITY FOR INVESTMENT

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

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

To the extent that the Series 2001 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 2001 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 2001 Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Department has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Series 2001 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 2001 Bonds for such purposes.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., the Verification Agent, will verify the mathematical accuracy of the computations relating to (i) the sufficiency of projected cashflow receipts and disbursements on the Mortgage Loans and other funds pledged to pay the principal of and interest on the Bonds under certain assumptions and (ii) the computation of yield on the Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 2001 Bonds is excludable from gross income for federal income tax purposes. Causey Demgen & Moore, Inc. will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 2001 Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 2001 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 2001 Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Akin, Gump, Strauss, Hauer & Feld, L.L.P. and Wickliff & Hall, P.C.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 2001 Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "THE SERIES 2001 BONDS" (but excluding the information contained therein under the subheadings "Redemption Amounts and Prepayment Standard," and "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the subheadings "Prior Bonds", "Mortgage Loans and Mortgage Certificates" and "Investment of Funds"), "THE PROGRAM AND THE MORTGAGE LOANS (but excluding information set forth under the headings "Community Home Buyer's Program" and "The Master Servicers"), "THE TRUST INDENTURE," "TEXAS TREASURY SAFEKEEPING TRUST COMPANY," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A, and APPENDIX E, to this Official Statement, solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Trust Indenture and the Series 2001 Bonds. Bond Counsel was not requested to participate and did not take part in the preparation of any other information contained herein and did not assume responsibility with respect thereto or undertake independently to verify the accuracy of any of such information. Except as set forth above, Bond Counsel does not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon such firm's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

ADDITIONAL INFORMATION

Certain provisions of the Act and the Trust Indenture are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive. For a full and complete statement of their respective provisions reference is made to such documents, copies of which may be obtained from the Department by mail at 507 Sabine, Suite 800, Austin, Texas 78711. 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 2001 Bonds that there has been no change in the affairs of the Department from the date hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 2001 Bonds.

TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

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

Dated: October 5, 2001

APPENDIX A

GLOSSARY

APPENDIX A

GLOSSARY

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

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

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

"Assisted Mortgage Loans" shall mean 2001 Mortgage Loans including down payment and closing costs assistance in an amount equal to 4% of the principal amount of the Mortgage Loan.

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

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

"Bond Year" shall mean each one-year period that ends on the date selected by the Department, or if none is selected, each annual anniversary of the issuance date of the Series 2001 Bonds. The first and last Bonds Years may be short periods.

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

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

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

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

"Certificate Purchase Period" shall mean the period from November 1, 2001 to May 1, 2003, but which may be extended to a date not later than February 1, 2005.

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

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

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

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

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

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

"Department Expenses" shall mean the Department's expenses of carrying out and administering its powers, duties and functions in connection with the mortgage loans and shall include without limiting the generality of the foregoing: salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus; expenses for data processing, insurance premiums, legal, accounting, management, consulting and banking services and expenses; the fees and expenses of the Fiduciaries; mortgage loan servicing fees; costs of issuance not paid from proceeds of bonds; payments to pension, retirement, health and hospitalization funds; amounts paid to obtain and maintain Supplemental Mortgage Security; and any other expenses required or permitted to be paid by the Department under the provisions of the Act, the Trust Indenture and any Supplemental Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) Government Obligations;
- (b) FHA debentures;
- (c) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America acting pursuant to authority granted by the Congress of the United States, including, without limitation the following: Fannie Mae (excluding mortgage-backed securities valued at greater than par on the portion of unpaid

principal and mortgage-backed securities representing payment of principal only or interest only with respect to the underlying loans); FHLMC, Ginnie Mae, Student Loan Marketing Association, or other successor agencies;

(d) Obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(e) Debt obligations (excluding obligations that do not have a fixed par value and/or the terms of which do not provide for payment of a fixed dollar amount at maturity or redemption) of any person, but only if such debt obligations are rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency;

(f) Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities not in excess of one year) of any bank the short-term unsecured debt obligations of which are rated by each Rating Agency in the highest category for short-term obligations.

(g) Certificates of deposit and time deposits which are fully insured as to principal and interest by the FDIC or the FSLIC;

(h) Commercial paper having maturities not in excess of one year rated by each Rating Agency in the highest category for short-term obligations;

(i) Money market funds rated by each Rating Agency in the highest category for money market funds;

(j) Repurchase agreements the subject of which are obligations described in clauses (a), (b), (c) or (d) above, with: (i) any Person whose long-term unsecured general indebtedness is rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency, or if the term of such repurchase agreement does not exceed one year, whose short-term unsecured general indebtedness is rated by each Rating Agency in the highest category for short-term obligations; and (ii) with any member of the Association of Primary Dealers;

(k) Investment agreements secured or unsecured as required by the Department, with any Person whose long-term unsecured general indebtedness is rated by each Rating Agency in a category at least as high as the rating then assigned to the Bonds by each such Rating Agency or, if the term of such investment agreement does not exceed one year, whose short-term unsecured general indebtedness is rated by each Rating Agency in the highest category for short-term obligations;

(l) Investment securities described in any Supplemental Indenture the inclusion of which in the definition of Investment Securities for purposes of the Master Indenture will not adversely affect, in and of itself, any rating then assigned to the Bonds by a Rating Agency, as evidenced by a letter from each such Rating Agency.

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

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

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

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

"Mortgage Loan" shall mean (i) any loan, including a 1987A Mortgage Loan, a Ginnie Mae Mortgage Loan and a Fannie Mae Mortgage Loan, evidenced by a Mortgage Note and secured by a Mortgage which satisfies the requirements of the Trust Indenture, which is made, acquired or refinanced, directly or indirectly, from amounts in the Mortgage Loan Fund or other moneys of the Department, and which is pledged by the Department to the Trustee pursuant to the Trust Indenture; and (ii) any evidence of a participation in a loan described above, including a Mortgage Certificate.

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

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

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

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

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

"1988/1989 Transferred Mortgage Assets" shall mean the 1988A Mortgage Certificates and the 1989A/B Mortgage Certificates transferred to the Series 2001C Bonds.

"1988A Mortgage Certificates" shall mean those Mortgage Certificates which are owned by the Department and which were acquired with the proceeds of the Residential Mortgage Revenue Bonds, Series 1988A.

"1989A/B Mortgage Certificates" shall mean those Mortgage Certificates which are owned by the Department which were acquired with the proceeds of its Residential Mortgage Revenue Bonds, Series 1989A and its Residential Mortgage Revenue Bonds, Series 1989B.

"Non-Assisted Mortgage Loans" shall mean 2001 Mortgage Loans other than Assisted Mortgage Loans.

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

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

"Pass-Through Rate" shall mean, initially, (i) with respect to each 2001 Mortgage Certificate representing interests in Non-Assisted Mortgage Loans, the rate of 4.95% per annum, and (ii) with respect to each 2001 Mortgage Certificate representing interests in Assisted Mortgage Loans, the rate of 5.45% per annum, both being subject to change from time to time upon written notice from the Department.

"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.

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

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

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

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

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

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

"Series 1987A Bonds" shall mean the Agency's Residential Mortgage Revenue Bonds, Series 1987A.

"Series 1989A Bonds" shall mean the Agency's Residential Mortgage Revenue Bonds, Series 1989A.

"Series 1989B Bonds" shall mean the Agency's Residential Mortgage Revenue Bonds, Series 1989B.

"Series 1998/1999A Bonds" shall mean the Departments' Residential Mortgage Revenue Bonds, Series 1998 and 1999A.

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

"Series 2000A Bonds" shall mean the Department's Residential Mortgage Revenue Bonds, Series 2000A.

"Series 2000 B/C/D/E Bonds" shall mean the Department's Residential Mortgage Revenue Bonds, Series 2001B, Series 2000C, Series 2000D, and Series 2000E.

"Series 2001A Bonds" shall mean the Department's Residential Mortgage Revenue Bonds, Series 2001A.

"Series 2001B Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 2001B.

"Series 2001C Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 2001C.

"Series 2001 Bonds" shall mean, collectively, the Series 2001A Bonds, the Series 2001B Bonds, and the Series 2001C Bonds.

"Series 2001A Series Supplement" shall mean the Twentieth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001, as amended from time to time.

"Series 2001A/B/C Series Supplements" shall mean, collectively, the Series 2001A Series Supplement, Series 2001B Series Supplement, and the Series 2001C Series Supplement.

"Series 2001B Series Supplement" shall mean the Twenty-First Supplemental Residential Mortgage Revenue Refunding Bond Trust Indenture, dated as of October 1, 2001, as amended from time to time.

"Series 2001C Series Supplement" shall mean the Twenty-Second Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001, as amended from time to time.

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

"State" shall mean the State of Texas.

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

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

"2001 Mortgage Certificates" shall mean the Ginnie Mae Certificates or Fannie Mae Certificates that evidence beneficial ownership of and a 100% participation in a Mortgage Pool, that satisfy the requirements of the Trust Indenture which are purchased by the Trustee from amounts available in the 2001 A/B/C Mortgage Loan Account and pledged by the Department to the Trustee pursuant to the Indenture and the Series 2001A/B/C Series Supplements.

"2001 Mortgage Loans" shall mean the loans included in each Mortgage Pool represented by a 2001 Mortgage Certificate.

"2001 A/B/C Cost of Issuance Account" shall mean the 2001 A/B/C Cost of Issuance Account of the Cost of Issuance Fund.

"2001 A/B/C Mortgage Loan Account" shall mean the 2001 A/B/C Mortgage Loan Account of the Mortgage Loan Fund.

"2001 A/B/C Revenue Account" shall mean the 2001 A/B/C Revenue Account of the Revenue Fund.

"2001 A/B/C Residual Revenues Account" shall mean the 2001 A/B/C Residual Revenues Account of the Residual Revenues Fund.

"2001 A/B/C Special Redemption Account" shall mean the 2001 A/B/C Special Redemption Account of the Special Redemption Fund.

"2001 Series A/B Cumulative Applicable Amount" means the amount based on the assumed receipt of Mortgage Loan Principal Prepayments received with respect to Mortgage Loans financed with the proceeds of the Series 2001A Bonds and Series 2001B Bonds at 300% of the BMA Prepayment Model and redemption of the Series 2001A Bonds and Series 2001B Bonds in accordance with the Indenture. Any special redemption of the Series 2001A Bonds and Series 2001B Bonds from unexpended proceeds will reduce the 2001 Series A/B Cumulative Applicable Amount for the Series 2001A Bonds and Series 2001B Bonds for the current and each future semiannual period by an amount equal to the product of such 2001 Series A/B Cumulative Applicable Amount and a fraction (a) the numerator of which equals the sum of the amount of moneys disbursed from the 2001 A/B/C Mortgage Loan Account to redeem Series 2001A Bonds and Series 2001B Bonds and (b) the denominator of which equals the sum of the amount of moneys initially deposited by the Trustee in the 2001 A/B/C Mortgage Loan Account. The "2001 Series A/B Cumulative Applicable Amount" is equal to the amounts expressed on a cumulative basis in each of the semiannual periods ending

on the dates set forth in the table of 2001 Series A/B Cumulative Applicable Amounts set forth in the Series 2001A Series Supplement (subject to adjustments as described above). Thereafter, the 2001 Series A/B Cumulative Applicable Amount shall be the remaining balance, if any of the 2001 Series A/B Cumulative Applicable Amount as adjusted from prior periods.

"2001 Series A/B Cumulative Prepayments" means the amount of Mortgage Loan Principal Prepayments of Mortgage Loans financed with the proceeds of the Series 2001A Bonds and the Series 2001B Bonds expressed on a cumulative basis.

APPENDIX B

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

APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS

Introduction

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

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

FHA Insurance Programs

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

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

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

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

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

Department of Veterans Affairs Mortgage Guaranty Program

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

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

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

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

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

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

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

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

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

Private Mortgage Insurance Programs

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

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

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

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

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

Mortgage Pool Insurance

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

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

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

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

borrower or other persons involved in the origination or servicing of the Mortgage Loans; (ii) failure to construct a property subject to a Mortgage Loan in accordance with specified plans; or (iii) physical damage to a property.

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

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

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

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

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

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

Standard Hazard Insurance Policies

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

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

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

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

Foreclosure Laws

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

Mortgage instruments utilized in the State generally and the Mortgages to be used in the Department's programs take the form of deeds of trust containing the power of out-of-court foreclosures and sale.

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

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

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

APPENDIX C-1

GINNIE MAE AND THE GINNIE MAE CERTIFICATES

APPENDIX C-1 GINNIE MAE AND THE GINNIE MAE CERTIFICATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

Mortgage-backed Securities Program

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

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

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

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

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

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

Pool Purchase Contract

It is expected that Fannie Mae and the Servicer will enter into a Pool Purchase Contract, pursuant to which the Servicer will be permitted to deliver, and Fannie Mae will agree to purchase mortgage loans in exchange for Fannie Mae Certificates. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract

will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially in the form presented by Fannie Mae to the Servicer as of the date hereof.

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

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

Fannie Mae Certificates

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

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

Payments on Mortgage Loans; Distributions on Fannie Mae Certificates

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

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

APPENDIX D-1

AUDITED FINANCIAL STATEMENTS

OF THE

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

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2000 and 1999

[Report of Independent Auditors]



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

Financial Statements

August 31, 2000 and 1999

(With Independent Auditors' Report Thereon)



111 Congress Avenue
Suite 1100
Austin, TX 78701

**RICHARD
MENDOZA**
Certified Public Accountant

Independent Auditors' Report

The Governing Board
Texas Department of Housing and Community Affairs:

We have audited the accompanying balance sheets of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund as of August 31, 2000 and 1999, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended and supporting schedules 3 and 4 (supplementary information on pages 29 to 36). These financial statements and schedules are the responsibility of the management of the Texas Department of Housing and Community Affairs (Department). Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund at August 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and the supporting schedules 3 and 4 (supplementary information on pages 29 to 36), in our opinion, present fairly, in all material respects, the information set forth therein.

The supplementary information by bond program included as schedules 1 and 2 is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual bond programs and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

Richard Mendoza, CPA

November 17, 2000



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

Balance Sheets

August 31, 2000 and 1999

Assets	<u>2000</u>	<u>1999</u>
Cash and temporary investments (notes 2 and 3):		
Cash on hand	\$ 200	200
Cash in bank	3,690,774	2,300,320
Cash in State Treasury	839,010	889,484
Short-term investments	<u>158,123,802</u>	<u>89,795,382</u>
Total cash and temporary investments	162,653,786	92,985,386
Investments, net (notes 2 and 3)	829,503,064	855,468,012
Receivables:		
Interest receivable	8,403,933	6,955,623
Notes receivable - related party	1,000,000	1,000,000
Mortgage loans receivable, net (notes 3 and 4)	423,310,855	374,707,044
Consumable inventories	4,535	13,273
Real estate owned, net (notes 3 and 5)	239,796	629,346
Fixed assets	1,738,906	1,708,356
Less accumulated depreciation	(1,273,519)	(1,078,556)
Deferred issuance costs, net (note 6)	11,714,608	11,910,081
Other assets	<u>598,625</u>	<u>306,800</u>
	<u>\$ 1,437,894,589</u>	<u>1,344,605,365</u>
Liabilities and Fund Equity		
Accounts payable	\$ 568,848	534,130
Deferred revenues	6,009,577	6,663,089
Revenue bonds payable (notes 2, 3, 4 and 6)	1,272,236,566	1,210,449,512
Commercial paper notes payable	31,940,000	12,150,000
Accrued interest payable	21,929,294	22,161,418
Due to other funds	-	7,069
Employees compensable leave	247,434	272,246
Due to other agencies	-	3,805
Other liabilities	<u>71,209,649</u>	<u>40,397,820</u>
Total liabilities	1,404,141,368	1,292,639,089
Fund equity - retained earnings, restricted (note 3)	<u>33,753,221</u>	<u>51,966,276</u>
Commitments and contingencies (notes 9, 10 and 11)		
	<u>\$ 1,437,894,589</u>	<u>1,344,605,365</u>

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Fund Equity

August 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Interest and investment income	\$ 89,060,546	89,066,911
Other operating revenues	<u>3,894,982</u>	<u>4,930,421</u>
Total operating revenues	<u>92,955,528</u>	<u>93,997,332</u>
Operating expenses:		
Salaries and wages	3,113,128	2,818,324
Payroll related costs	604,010	524,952
Professional fees and services	186,195	400,035
Travel	96,070	119,326
Materials and supplies	111,399	122,937
Communication and utilities	82,452	98,429
Repairs and maintenance	213,894	168,568
Rentals and leases	437,656	408,491
Printing and reproduction	35,661	42,852
Depreciation and amortization	771,813	702,336
Claims and judgments	11,502	11,421
Interest expense	78,353,677	79,288,452
Other operating expenses	<u>3,127,172</u>	<u>2,921,367</u>
Total operating expenses	<u>87,144,629</u>	<u>87,627,490</u>
Operating income	5,810,899	6,369,842
Realized and unrealized gains (losses) on investments	(22,091,399)	(20,333,803)
Loss on early extinguishment of debt	(1,991,669)	(1,550,284)
Operating transfers to (from) the Department	<u>59,114</u>	<u>(333,241)</u>
Net loss	(18,213,055)	(15,847,486)
Fund equity at beginning of year	<u>51,966,276</u>	<u>67,813,762</u>
Fund equity at end of year	\$ <u><u>33,753,221</u></u>	<u><u>51,966,276</u></u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

August 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Proceeds from loan programs	\$ 84,239,864	89,560,298
Proceeds from other revenues	2,595,679	4,037,054
Payments to suppliers for goods and services	(4,217,344)	(2,680,398)
Payments to employees	(3,741,950)	(3,286,116)
Payments for loans funded	<u>(75,835,087)</u>	<u>(26,872,416)</u>
Net cash provided by operating activities	<u>3,041,162</u>	<u>60,758,422</u>
Cash flows from non-capital financing activities:		
Proceeds from debt issuance	284,959,600	144,605,000
Payments for other costs of debt	(3,191,344)	(2,102,012)
Transfers to other funds	(7,069)	(333,241)
Proceeds from (payments to) other funds	59,114	(34,375)
Payments of principal on debt	(203,963,517)	(161,896,139)
Payments of interest	<u>(77,166,548)</u>	<u>(79,245,862)</u>
Net cash provided by (used in) non-capital financing activities	<u>690,236</u>	<u>(99,006,629)</u>
Cash flows from capital and related financing activities:		
Payments for additions to fixed assets	<u>(64,018)</u>	<u>(163,993)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	569,731,451	424,019,585
Proceeds from interest and investment income	61,889,277	60,229,304
Payments to acquire investments	<u>(565,619,708)</u>	<u>(471,712,475)</u>
Net cash provided by investing activities	<u>66,001,020</u>	<u>12,536,414</u>
Net increase (decrease) in cash and cash equivalents	69,668,400	(25,875,786)
Cash and cash equivalents at beginning of year	<u>92,985,386</u>	<u>118,861,172</u>
Cash and cash equivalents at end of year	<u>\$ 162,653,786</u>	<u>92,985,386</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

August 31, 2000 and 1999

	2000	1999
Reconciliation of cash from operating activities to operating income:		
Operating income	\$ 5,810,899	6,369,842
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation	771,813	702,336
Provision for estimated losses	697,181	512,079
Operating income and cash flow categories - classification differences	13,813,998	19,061,242
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(1,448,310)	(401,277)
(Increase) decrease in loans	(46,823,811)	38,278,815
Decrease in mortgage loan acquisition costs	195,473	1,248,703
Increase (decrease) in deferred revenues	(653,512)	999,429
(Decrease) increase in other assets and liabilities, net	30,909,555	(4,697,972)
(Decrease) in accrued interest payable	<u>(232,124)</u>	<u>(1,314,775)</u>
Net cash provided by operating activities	<u>\$ 3,041,162</u>	<u>60,758,422</u>

During 2000 and 1999, loans totaling \$635,297 and \$1,285,957 were foreclosed, respectively, and the related properties acquired were transferred to real estate owned.

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 2000 and 1999

(1) General Statement and Significant Accounting Policies

General Statement

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

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

The Revenue Bond Enterprise Fund is composed of nine separate enterprise funds in 2000 and 1999 and operates several bond programs under separate trust indentures as follows:

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

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

Notes to Financial Statements

August 31, 2000 and 1999

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

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

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

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

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

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

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

Notes to Financial Statements

August 31, 2000 and 1999

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

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

Continuance Subject to Review

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

Significant Accounting Policies

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

(a) Fund Accounting

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

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

Notes to Financial Statements

August 31, 2000 and 1999

(b) Investments

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

The Revenue Bond Enterprise Fund has reported all investment securities at fair value as of August 31, 2000 and 1999, with exception of certain money market investments and nonparticipating interest-earning investment contracts which are reported at amortized cost (historical cost adjusted for amortization of premiums and accretion of discounts) provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors (note 2).

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

(c) Mortgage-Backed Securities

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

(d) Loans Receivable

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

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

Notes to Financial Statements

August 31, 2000 and 1999

(e) *Real Estate Owned*

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

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

(f) *Allowance for Estimated Losses on Loans and Foreclosed Properties*

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

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

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

(g) *Commitment Fees*

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

(h) *Deferred Issuance Costs*

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

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

Notes to Financial Statements

August 31, 2000 and 1999

(i) Discounts and Premiums on Debt

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

(j) Fund Equity

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

(k) Cash Flows

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

(l) Interfund Transactions

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

(m) Gain/Loss on Refundings of Debt

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

(n) 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.

(o) 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.

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

Notes to Financial Statements

August 31, 2000 and 1999

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

At August 31, 2000 and 1999, the Revenue Bond Enterprise Fund had cash and cash equivalents, investments and mortgage-backed securities as follows (amounts in thousands):

Cash and Cash Equivalents	<u>2000</u>	<u>1999</u>
Cash	\$ 4,177	2,847
Money market accounts	353	343
Mutual funds	3,601	2,391
Guaranteed investment contracts	102,054	12,150
Repurchase agreements	51,806	74,751
U.S. Treasury securities	663	503
	<u>\$ 162,654</u>	<u>92,985</u>
 Investments		
Guaranteed investment contracts	\$ 125,816	214,098
U.S. Treasury securities	9,321	12,786
Mortgage-backed securities	691,366	628,584
	<u>\$ 829,503</u>	<u>855,468</u>

At August 31, 2000 and 1999, the Revenue Bond Enterprise Fund's bank deposits amounted to \$3,690,774 and \$2,300,320, respectively, with bank balances of \$3,690,774 and \$2,300,320, respectively. Of those amounts, \$3,166,835 in 2000 and \$1,577,215 in 1999, were in a depository fully collateralized by securities held with a Trustee in the Department's name or covered by Federal Deposit Insurance Corporation (FDIC) insurance coverage. Collateralized cash held by and in the name of paying agents, trustees and depositories amounted to \$523,939 in 2000 and \$723,105 in 1999. At August 31, 2000 and 1999, the Revenue Bond Enterprise Fund's cash and deposits in the State Treasury amounted to \$839,010 and \$889,484, respectively. These amounts were fully collateralized by securities held with a trustee in the State's name, as reported to the Department by the Comptroller of Public Accounts of the State of Texas.

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

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

Notes to Financial Statements

August 31, 2000 and 1999

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$227,796,522 and \$228,732,779 of investment agreements/contracts at August 31, 2000 and 1999, respectively, which are unsecured. The Department considers these investment agreements/contracts to be category 3. Under an agreement with the Department, the counterparty must maintain a rating on long-term, unsecured, unsubordinated debt obligations must be maintained at "AAA" by Standard & Poor's "Aaa" by Moody's, and/or other comparable high rating during the term of the agreement/contract. Should the rating fall below the requirement, the counterparty shall either substitute an acceptable replacement guarantor, deliver collateral, or repay the principal of and accrued but unpaid interest on the investment. A summary of investments by type at August 31, 2000 and 1999 is as follows (amounts in thousands):

	2000	1999
Repurchase and other investment agreements	\$ 280,717	300,999
Pass-through certificates	691,366	628,584
Other U.S. Government securities	11,943	13,289
Mutual funds *	3,601	2,391
Total investments	\$ 987,627	945,263

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

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

Notes to Financial Statements

August 31, 2000 and 1999

Repurchase agreements and other qualified investment agreements with a carrying amount of \$280,716,404 at August 31, 2000 and \$300,998,936 at August 31, 1999 are generally secured by U.S. government obligations or other marketable securities with market values in excess of the cost. At August 31, 2000 and 1999, the agreements were with the following counterparties (amounts in thousands):

<u>Counterparty</u>	<u>2000</u>	<u>1999</u>
AMBAC	\$ 8,135	-
Scott Fetzer Financial	1,000	1,000
Citicorp	2,660	4,522
Berkshire Hathaway	3,607	7,078
Morgan Stanley	-	2,873
MBIA Investment	2,116	11,903
FGIC	46,060	41,660
Transamerica Life	39,561	11,468
Core States Bank	284	403
Bayerische Landesbank	2,936	-
Protective Life	1,781	1,781
Trinity	59,952	82,216
Chase	-	-
Lehman Brothers	1,042	1,042
Societe Generale	3,507	3,675
Westdeutsche Bank	3,712	5,422
Paribas Corp.	9,246	-
Daiwa	-	67,180
CIBC Oppenheimer	39,962	-
Assured Return Management	39,899	-
AIG Matched Funding Corp.	12,151	52,832
CDC Funding Corp.	3,106	5,944
	<u>\$ 280,717</u>	<u>300,999</u>

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

Notes to Financial Statements

August 31, 2000 and 1999

(3) Restricted Assets

Certain amounts of cash, mortgage-backed securities, loans receivable and real estate owned are restricted by the trust indentures of the related bonds and collateralized mortgage obligations. The trust indentures of the Department also require the establishment of funds and accounts for the segregation of assets and restricting the use of bond proceeds and other funds in connection with each bond program. Such restricted assets, primarily investments, are as follows at August 31, 2000 (amounts in thousands):

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

Such restricted assets, primarily investments, are as follows at August 31, 1999 (amounts in thousands):

<u>Program</u>	<u>Mortgage and Debt Service Reserve</u>	<u>Unspent Bond Proceeds</u>	<u>Revenue Fund</u>	<u>Self- Insurance</u>	<u>Rebate Fund</u>
Single-family	\$ 10,318	64,725	52,193	3,708	1,727
RMRB	2,675	82,221	5,995	401	-
GNMA	-	-	564	-	-
CHMRB	-	-	4,813	-	32
Multifamily	1,211	-	1,150	-	-
93 SF CHMRB	-	-	1,530	-	15
94/95 SF CHMRB	-	-	1,248	-	156
Commercial Paper	-	-	-	-	68
Total	\$ 14,204	146,946	67,493	4,109	1,998

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

Notes to Financial Statements

August 31, 2000 and 1999

(4) Loans Receivable

Loans receivable as of August 31, 2000 and 1999 consisted of the following (amounts in thousands):

	<u>2000</u>	<u>1999</u>
Single-family loans	\$ 142,426	164,733
Multifamily loans	285,600	214,009
RMRB (1987 Series A) single-family loans	5,437	6,041
Miscellaneous loans	<u>129</u>	<u>131</u>
Total loans	433,592	384,914
Deferred commitment fees, net of accumulated amortization of \$37,316 in 2000 and \$36,886 in 1999	(3,132)	(3,561)
Allowance for estimated loan losses	<u>(7,150)</u>	<u>(6,646)</u>
Total	<u>\$ 423,310</u>	<u>374,707</u>

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

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

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

The Single-family trust indenture requires the Department to obtain and maintain mortgage pool insurance on loans collateralizing each series of bonds issued under that trust indenture. Except with respect to four series, the requirement has been satisfied by purchasing and maintaining a mortgage pool insurance policy for each bond series. For loans collateralizing the other four series of bonds, the Department has entered into Mortgage Pool Self-insurance Fund Agreements (Agreements) with the Trustee. The funding requirements of these Agreements have been met as of August 31, 2000.

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.

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

Notes to Financial Statements

August 31, 2000 and 1999

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

	<u>2000</u>	<u>1999</u>
Balance at beginning of year	\$ 6,646	6,170
Provision for estimated losses on loans	504	476
Balance at end of year	<u>\$ 7,150</u>	<u>6,646</u>

(5) Real Estate Owned

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

	<u>2000</u>	<u>1999</u>
Real estate owned	\$ 289	631
Allowance for estimated losses	(49)	(2)
Real estate owned, net	<u>\$ 240</u>	<u>629</u>

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

	<u>2000</u>	<u>1999</u>
Balance at beginning of year	\$ 2	183
Amounts charged-off	(11)	(238)
Provision for losses on real estate owned	58	57
Balance at end of year	<u>\$ 49</u>	<u>2</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.

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

Notes to Financial Statements

August 31, 2000 and 1999

(6) Bonds Payable

Bonds payable activity for the year ended August 31, 2000 consisted of the following (amounts in thousands):

	Original Face Amount	Balance 8/31/99	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/00	Final Maturity Date
Single-family:						
1991 Series A-4.8% to 7.15%	\$ 81,605	30,135	-	9,950	20,185	2013
1994 Series A/B-8.1% to 9.5%	60,995	9,850	-	4,850	5,000	2016
1994 Series A-7%	38,991	15,908	1,064	3,607	13,365	2015
1995 Series A-4.15% to 6.15%	85,760	79,875	-	3,710	76,165	2027
1995 Series B-4.95% to 5.4%	9,605	6,810	-	3,165	3,645	2009
1995 Series C-6.44% to 7.76%	71,760	46,405	-	5,875	40,530	2018
1996 Series A-4.5% to 6.3%	15,000	10,225	-	250	9,975	2029
1996 Series B-5.5% to 6%	42,140	33,480	-	7,200	26,280	2017
1996 Series C-8.3%	2,000	2,000	-	2,000	-	2017
1996 Series D-5.45% to 6.25%	70,760	67,710	-	3,655	64,055	2029
1996 Series E-3.9% to 6%	98,730	79,070	-	10,415	68,655	2018
1997 Series A-5.25% to 5.80%	44,465	44,245	-	415	43,830	2030
1997 Series B-5.45%	9,510	9,510	-	-	9,510	2019
1997 Series C-6.80%	25,525	25,155	-	1,905	23,250	2030
1997 Series D-5.65% to 5.70%	44,795	44,795	-	-	44,795	2030
1997 Series E-4.50% to 5.00%	20,295	14,295	-	6,275	8,020	2016
1997 Series F-6.77%	20,000	19,660	-	1,035	18,625	2030
Total principal amount		539,128	1,064	64,307	475,885	
Unamortized premium		-			257	
Unamortized discount and losses on refundings		(6,223)			(5,546)	
Total single-family		532,905			470,596	
RMRB:						
1988 Series A-6.5% to 7.6%	40,920	33,540	-	955	32,585	2018
1989 Series A-6.6% to 7.6%	44,000	8,200	-	35,120	4,680	2016
1989 Series B-7.85%	45,000	8,805	-	3,675	5,130	2018
1998 Series A-4.05% to 5.35%	102,055	102,055	-	1,605	100,450	2031
1998 Series B-5.30%	14,300	14,300	-	220	14,080	2022
1999 Series A-4.80% to 5.50%	25,615	25,615	-	3,535	22,080	2021
1999 Series B-1-6.32% to 5.50%	52,260	-	52,260	335	51,925	2032
1999 Series B-2-3.90%	50,000	-	50,000	50,000	-	2033
1999 Series C-5.05% to 6.25%	12,150	-	12,150	-	12,150	2024
1999 Series D-4.30% to 6.25%	26,355	-	26,355	1,185	25,170	2021
2000 Series A-5.10% to 6.30%	50,000	-	50,000	-	50,000	2031
Total principal amount		192,515	190,765	65,030	318,250	
Unamortized disc./loss on rfnd		(1,097)			(2,201)	
Unamortized premium		-			1,428	
Total RMRB		191,418			317,477	

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

Notes to Financial Statements

August 31, 2000 and 1999

	Original Face Amount	Balance 8/31/99	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/00	Final Maturity Date
GNMA:						
1989 Series A-8.49%	72,000	11,868	-	11,868	-	2020
1989 Series B-7.805%	48,250	15,455	-	15,455	-	2021
Total GNMA		<u>27,323</u>	<u>-</u>	<u>27,323</u>	<u>-</u>	
CHMRB:						
1990 Series A-6.3% to 7.35%	46,600	910	-	910	-	2011
1990 Series B-7.8%	93,445	21,670	-	21,670	-	2023
1991 Series A - 5.25% to 6.95%	36,000	18,955	-	2,565	16,125	2023
1992 Series A and B - linked rate averaging 6.90%	59,500	16,200	-	9,400	6,800	2024
1992 Series C - linked rate averaging 6.90%	72,700	72,700	-	-	72,700	2024
Total principal		<u>130,435</u>	<u>-</u>	<u>34,810</u>	95,625	
Plus unamortized premium		<u>2,276</u>			<u>2,002</u>	
Total CHMRB		<u>132,711</u>			<u>97,627</u>	
SF MRB CHMRB:						
1993 Series A-5.85%	11,695	8,365	-	1,075	7,290	2026
1993 Series B-6.62%	15,000	10,795	-	1,440	9,355	2026
1993 Series C-6.68%	15,000	11,240	-	1,230	10,010	2026
1993 Series D-6.76%	8,000	5,330	-	575	4,755	2026
1993 Series E-6.85%	8,780	4,320	-	365	3,955	2026
1994 Series A-6.85%	35,395	28,115	-	1,840	26,275	2027
1994 Series B-6.4%	33,385	27,775	-	2,855	24,920	2027
1994 Series C-6.25%	15,360	13,165	-	950	12,215	2027
1995 MRRB Series A-6.26%	5,825	2,615	-	670	1,945	2016
1995 MRRB Series B-5.7%	2,030	170	-	170	-	2011
Total SF MRB CHMRB		<u>111,890</u>	<u>-</u>	<u>11,170</u>	<u>100,720</u>	
Multifamily:						
1984 Series (Allied Bank Private Placement- Summer Bend at Las Colinas) - variable rate currently at 8%	10,100	8,480	-	120	8,360	2023
1987 Series (South Texas Rental Housing) - 9.5%	1,400	1,107	-	43	1,064	2013
1993 Series A and B Refunding (High Point III Development/ Remington Hill Development)	26,370	12,490	-	-	12,490	2023
1993 Residential Rental (National Center) - 3.3% to 5.89%	16,775	15,440	-	295	15,145	2024
1996 Series A and B (Brighton's Mark) - 6.13%	9,748	8,075	-	-	8,075	2026

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

Notes to Financial Statements

August 31, 2000 and 1999

	Original Face Amount	Balance 8/31/99	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/00	Final Maturity Date
1996 Series A and B (Marks of Las Colinas) - 5.65%	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-Pt. Worth) - 6% to 10%	22,150	21,500	-	295	21,205	2026
1996 Series A, B, C and D (Harbors and Plumtree) - 5.9% to 10%	13,050	12,585	-	175	12,410	2026
1996 Series A and B (NHP Foundation) - 5.50% to 6.4%	27,560	26,730	-	395	26,335	2027
1997 Series (Meadow Ridge) - 5.05% to 5.55%	13,575	13,575	-	-	13,575	2030
1998 Series (Pebble Brook) - 4.95% to 5.60%	10,900	10,900	-	-	10,900	2031
1998 Series A, B, and C (Residence Oaks) - 5.98% to 7.18%	8,200	8,200	-	-	8,200	2031
1998 Series (Volente) - 5.00% to 5.63%	10,850	10,850	-	-	10,850	2031
1998 Series (Dallas-Oxford Rfdg) 7.25%	10,300	10,300	-	-	10,300	2018
1998 Series (Greens) - 5.2-6.03%	13,500	13,500	-	-	13,500	2031
1999 Series (Mayfield)- 5.7% - 7.25%	11,445	11,445	-	-	11,445	2031
1999 Series (Woodglen Village)- 7.38% to 8.25%	10,660	-	10,660	-	10,660	2040
2000 Series (Timber Point) variable rate	8,100	-	8,100	-	8,100	2032
2000 Series (Oaks @ Hampton) 7.20% to 9.00%	10,060	-	10,060	-	10,060	2040
2000 Series (Deerwood) 5.25% to 6.40%	6,435	-	6,435	-	6,435	2033
2000 Series (Creek Point) Variable rate	7,200	-	7,200	-	7,200	2032
2000 Series A/B (Parks @ Westmoreland-7.20% to 9.00%	9,990	-	9,990	-	9,990	2040
2000 Series (Honeycreek) 7.63% to 8.15%	20,485	-	20,485	-	20,485	2035
Total principal amount		214,321	72,930	1,323	285,928	
Unamortized discount		(118)			(111)	
Total Multifamily		214,203			285,817	
Total		\$ 1,210,450			1,272,237	

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

Notes to Financial Statements

August 31, 2000 and 1999

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

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

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

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

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

During fiscal year 1999, the Department initiated a current refunding of debt. The 1987 Single-family Series B were refunded with the proceeds of the 1997 Single-family Series E. This refunding transaction resulted in a deferred loss of \$1,102,799 which will be recognized over the life of the new debt issuance, in accordance with GASB Statement No. 23. During the current period, the Revenue Enterprise Bond Fund recognized \$5,558 of amortization. The Revenue Bond Enterprise Fund recognized an economic gain of approximately \$10,102,000 from the refunding transaction. In addition, the gross cash flow resulting from this refunding transaction amounted to \$12,742,000.

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

Notes to Financial Statements

August 31, 2000 and 1999

Bond contractual maturities (principal only) at August 31, 2000 are as follows (amounts in thousands):

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 5,080	4,270	3,380	3,545	11,975	447,635	475,885
RMRB	1,315	2,340	4,080	3,530	3,710	303,275	318,250
CHMRB	255	250	-	-	-	195,840	196,345
Multifamily	1,865	2,283	2,615	2,549	2,804	273,912	285,928
Total	<u>\$ 8,515</u>	<u>9,143</u>	<u>10,075</u>	<u>9,624</u>	<u>18,489</u>	<u>1,220,662</u>	<u>1,276,408</u>

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

Bond maturities (principal and interest) at August 31, 2000 are as follows (amounts in thousands):

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 33,288	32,198	31,115	31,110	39,357	899,791	1,066,859
RMRB	20,788	20,977	22,566	21,822	21,835	625,020	733,008
CHMRB	13,348	13,328	13,066	13,066	13,066	451,260	517,134
Multifamily	27,228	27,485	27,569	27,360	27,373	712,026	849,041
Total	<u>\$ 94,652</u>	<u>93,988</u>	<u>94,316</u>	<u>93,358</u>	<u>101,631</u>	<u>2,688,097</u>	<u>3,166,042</u>

Deferred issuance costs at August 31, 2000 and 1999 consist of the following (amounts in thousands):

	<u>2000</u>	<u>1999</u>
Deferred issuance costs	\$ 24,862	23,380
Less: accumulated amortization	(13,147)	(11,470)
	<u>\$ 11,715</u>	<u>11,910</u>

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

Notes to Financial Statements

August 31, 2000 and 1999

(7) Employee Benefits

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

Funding Policy - Under provisions in State law, plan members are required to contribute 6.0% of their annual covered salary and the Department contributes an amount equal to 6.0% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ending August 31, 2000, 1999 and 1998 were \$300,630, \$235,000 and \$228,000, respectively, equal to the required contributions for each year.

(8) Segment Financial Data

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

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

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

Notes to Financial Statements

August 31, 2000 and 1999

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

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 1999 and for the year then ended is as follows (amounts in thousands):

1999					
Programs	Operating Revenues	Depreciation/ Amortization	Operating Income (Loss)	Operating Transfers In (Out)	Net Income (Loss)
Single-family	\$ 43,734	212	6,289	(2,705)	(13,116)
RMRB	11,529	72	741	(116)	(6,337)
GNMA	2,667	37	86	(95)	(817)
CHMRB	10,842	30	562	(77)	2,012
Multifamily	13,506	16	261	(613)	(327)
GNMA/CHMRB	2,931	6	124	(61)	1,016
SF CHMRB 1994/1995	5,252	7	282	(230)	133
Commercial paper	290	77	(101)	14	(87)
Operating	3,246	245	(1,874)	3,550	1,676
Total	\$ 93,997	702	6,370	(333)	(15,847)

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

Notes to Financial Statements

August 31, 2000 and 1999

1999					
Programs	Net Working Capital	Total Assets	Fund Equity	Bonds Payable	PP&E Additions
Single-family	\$ 45,736	586,777	32,017	532,905	-
RMRB	897	197,429	2,595	191,417	-
GNMA	626	28,898	1,146	27,324	-
CHMRB	895	138,577	2,311	132,711	-
Multifamily	4,645	254,643	1,365	214,203	-
GNMA/CHMRB	1,569	41,114	828	40,050	-
SF CHMRB 1994/1995	751	73,428	1,041	71,840	-
Commercial paper	12,228	12,282	9	-	-
Operating	9,774	11,457	10,654	-	164
Total	\$ 77,121	1,344,605	51,966	1,210,450	164

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

(11) Subsequent Events

On October 26, 2000, the Department issued \$124,915,000 in residential mortgage revenue bonds made up as follows:

\$82,975,000	RMRB Series 2000 B
\$13,675,000	RMRB Series 2000 C
\$18,265,000	RMRB Series 2000 D
\$10,000,000	RMRB Taxable Series 2000E

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

Notes to Financial Statements

August 31, 2000 and 1999

The Series 2000B Bonds and the Series 2000E Bonds were issued for the primary purpose of providing funds for the purchase of mortgage backed, pass-through certificates backed by qualifying FHA-insured or VA- or RHS-guaranteed mortgage loans, or conventional loans made to eligible borrowers for single-family residences located in the State of Texas. The proceeds of the Series 2000C Bonds and the Series 2000D Bonds were issued for the purpose of refunding and redeeming an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT), thereby making additional funds available to acquire Mortgage Certificates.

On September 26, 2000, the Department issued \$13,500,000 in multi-family revenue bonds (Highland Meadow Village Apartments) made up as follows:

\$10,115,000	MF 2000 Series A
\$ 2,635,000	MF 2000 Series B
\$ 750,000	MF 2000 Series C

On November 7, 2000, the Department issued \$20,085,000 in multifamily revenue bonds (Greenbridge at Buckingham Apartments) made up as follows:

\$19,735,000	MF 2000 Series A
\$ 350,000	MF 2000 Series B

The Multifamily bonds were issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily residential rental developments. Highland Meadow Apartments will be located in Houston, Texas and Greenbridge at Buckingham Apartments will be located in Richardson, Texas.

Sch

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

Supplemental Schedule - Balance Sheet Information by Program

August 31, 2000

Assets	Single-family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	T
Cash and temporary investments:										
Cash on hand	\$ -	-	-	-	-	-	-	-	200	
Cash in bank	2,895,265	-	-	-	-	788,040	-	-	7,469	
Cash in State Treasury	-	-	-	-	-	-	-	-	839,010	
Short-term investments	43,788,790	52,879,327	-	1,031,252	1,875,500	15,542,610	523,666	32,026,172	10,456,485	15
Investments, net	326,349,315	256,756,422	-	33,825,316	94,608,057	54,047,482	63,916,472	-	-	82
Receivables:										
Interest receivable	3,000,852	3,037,567	-	197,444	562,329	1,040,143	375,276	178,115	12,207	
Note receivable - related party	-	-	-	-	-	-	-	-	1,000,000	
Mortgage loans receivable, net	133,542,299	4,926,221	-	-	-	284,712,855	-	-	129,480	42
Consumable inventories	-	-	-	-	-	-	-	-	4,535	
Real estate owned, net	242,019	(2,223)	-	-	-	-	-	-	-	
Fixed assets:										
Furniture and equipment	-	-	-	-	-	-	-	-	1,738,906	
Less accumulated depreciation	-	-	-	-	-	-	-	-	(1,273,519)	
Deferred issuance costs, net	5,528,453	3,685,073	-	300,687	1,069,214	768,807	362,374	-	-	
Other assets	519,913	-	-	-	-	20,827	-	-	57,885	
Total assets	\$ 515,866,906	321,282,387	-	35,354,699	98,115,100	356,920,764	65,177,788	32,204,287	12,972,658	1,43
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	\$ 117,027	16,752	-	17	2,185	716	470	828	430,853	
Deferred revenues	3,043,617	1,636,219	-	-	1,329,741	-	-	-	-	
Revenue bonds payable	470,597,121	317,476,257	-	35,365,000	97,626,972	285,816,216	65,355,000	-	-	1,27
Commercial paper notes payable	-	-	-	-	-	-	-	31,940,000	-	3
Accrued interest payable	14,605,957	3,879,120	-	192,238	303,775	2,434,969	356,659	156,576	-	2
Employees compensable leave	-	-	-	-	-	-	-	-	247,434	
Other liabilities	2,559,401	1,151,559	-	994	-	67,343,145	16,511	86,172	51,867	7
Total liabilities	490,923,123	324,159,907	-	35,558,249	99,262,673	355,595,046	65,728,640	32,183,576	730,154	1,40
Fund equity retained earnings, restricted										
Total liabilities and fund equity	\$ 515,866,906	321,282,387	-	35,354,699	98,115,100	356,920,764	65,177,788	32,204,287	12,972,658	1,43

See accompanying independent auditors' report.

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

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

August 31, 2000

Program	1994/1995	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenues:																			
Interest and investment income	37,178,787	19,378,177	559,125	2,578,382	8,852,200	1,219,835	504,322	4,762,718	498,656	653,141	3,894,982	89,060,546							
Other operating revenues	771,498	699,190	35,194	-	1,219,835	504,322	-	-	-	664,943	3,894,982								
Total operating revenues	37,950,285	20,077,367	594,319	2,578,382	10,072,035	15,103,682	4,762,718	498,656	1,318,084	1,317,084	92,955,528								
Operating expenses:																			
Salaries and wages	-	-	-	-	-	-	-	-	-	3,113,128	3,113,128								
Payroll related costs	-	-	-	-	-	-	-	-	-	604,010	604,010								
Professional fees and services	22,525	7,152	3,000	9,000	12,500	4,000	19,983	-	108,035	186,195	96,070								
Travel	-	-	-	-	-	-	-	-	-	111,399	111,399								
Materials and supplies	-	-	-	-	-	-	-	-	-	82,452	82,452								
Repairs and maintenance	-	-	-	-	-	-	-	-	-	213,894	213,894								
Rentals and leases	-	-	-	-	-	-	-	-	-	437,656	437,656								
Printing and reproduction	-	-	-	-	-	-	-	-	-	35,661	35,661								
Depreciation and amortization	324,662	131,089	7,305	12,614	38,478	14,296	14,939	-	228,430	771,813	11,502								
Claims and judgments	-	-	-	-	-	-	-	-	-	-	-								
Interest expense	30,862,422	16,690,517	563,388	2,435,507	8,326,505	14,528,083	4,472,183	475,072	-	78,353,677	78,353,677								
Other operating expenses	1,974,339	709,362	4,140	11,447	139,975	26,663	22,048	5,564	233,634	3,127,172	3,127,172								
Total other expenses	33,183,948	17,538,120	577,833	2,468,968	8,517,458	14,569,042	4,513,170	500,619	5,275,871	87,144,629	87,144,629								
Operating income (loss)	4,766,337	2,539,247	16,486	109,814	1,554,577	534,640	249,548	(1,963)	(3,957,787)	5,810,899	5,810,899								
Realized and unrealized losses on investments	(6,763,049)	(9,924,783)	(112,164)	(1,035,309)	(2,563,746)	-	(1,692,348)	-	-	(22,091,399)	(22,091,399)								
Loss on early extinguishment of debt	(1,153,684)	(281,032)	-	(40,568)	(479,127)	-	(37,258)	-	-	(1,991,669)	(1,991,669)								
Operating transfers, net	(3,922,372)	2,193,964	(1,049,923)	(65,305)	(1,970,470)	(573,652)	(111,868)	12,719	5,546,021	59,114	59,114								
Net income (loss)	(7,072,768)	(5,472,604)	(1,145,601)	(1,031,368)	(3,458,766)	(39,012)	(1,591,926)	10,756	1,588,234	(18,213,055)	(18,213,055)								
Fund equity, beginning of year	32,016,551	2,595,084	1,145,601	827,818	2,311,193	1,364,730	1,041,074	9,955	10,654,270	51,966,276	51,966,276								
Fund equity, end of year	24,943,783	(2,877,520)	-	(203,550)	(1,147,573)	1,325,718	(550,852)	20,711	12,242,504	33,753,221	33,753,221								

See accompanying independent auditors' report.

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

Miscellaneous Bond Information

August 31, 2000
(Amounts in Thousands)

Description of Issue	Original Principal Bonds Issued To Date	Range of		Scheduled Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1991 Single-Family Series A	\$ 81,605	4.80%	7.15%	1992	2012	09/01/01
1994 Jr Lien Mtg Rev Bonds Series A	5,000	8.10%	8.10%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	38,991	7.00%	7.00%	2015	2015	09/01/04
1994 Jr Lien Mtg Rev Bonds Series B	55,995	9.50%	9.50%	2016	2016	09/01/04
1995 Single-Family Series A	85,760	4.15%	6.15%	1997	2027	09/01/05
1995 Single-Family Series B	9,605	4.95%	5.40%	2004	2008	09/01/05
1995 Single-Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/05
1996 Single-Family Series A	15,000	4.50%	6.30%	2001	2028	09/01/06
1996 Single-Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/06
1996 Single-Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/06
1996 Single-Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/06
1996 Single-Family Series E	98,730	3.90%	6.00%	1997	2017	09/01/06
1997 Single-Family Series A	44,465	5.25%	5.80%	2013	2029	09/01/07
1997 Single-Family Series B	9,510	5.45%	5.45%	2019	2019	09/01/07
1997 Single-Family Series C	25,525	6.80%	6.80%	2029	2029	09/01/07
1997 Single-Family Series D	44,795	5.65%	5.70%	2029	2029	09/01/07
1997 Single-Family Series E	20,295	4.50%	5.00%	2007	2016	09/01/07
1997 Single-Family Series F	20,000	6.77%	6.77%	2029	2029	09/01/07
1988 RMRB Series A	40,920	6.50%	7.60%	1990	2018	07/01/00
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/99
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/04
1998 RMRB Series A	102,055	4.05%	5.35%	2002	2031	01/01/09
1998 RMRB Series B	14,300	5.30%	5.30%	2022	2022	01/01/09
1999 RMRB Series A	25,615	4.80%	5.50%	2018	2021	01/01/09
1999 RMRB Series B-1	52,260	6.32%	7.10%	2021	2032	07/01/09
1999 RMRB Series B-2 (COBAs)	50,000	3.90%	3.90%	2033	2033	05/01/00
1999 RMRB Series C	12,150	5.05%	6.25%	2003	2024	07/01/09
1999 RMRB Series D	26,355	4.30%	6.25%	2000	2021	07/01/09
2000 RMRB Series A	50,000	5.10%	6.30%	2003	2031	07/01/10
1989 GNMA Series A	72,000	(a)		2019	2019	06/01/99
1989 GNMA Series B	48,250	(b)		2021	2021	12/01/99
1990 Coll Home Mtg Rev Bds Series A	46,600	6.30%	7.35%	1993	2011	07/01/00
1990 Coll Home Mtg Rev Bds Series B	93,445	7.80%	7.80%	2023	2023	07/01/00
1991 Coll Home Mtg Rev Bds Series A	36,000	5.25%	6.95%	1994	2023	01/01/02
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.27%	2023	2023	05/04/95
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2023	05/04/95
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2024	2024	05/04/95
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/04
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/04
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/04
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/04
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/04
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/05
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/05
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/05
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/05
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/05
TOTAL SINGLE-FAMILY BONDS	\$ 1,783,556					

(Continued)

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

Miscellaneous Bond Information

August 31, 2000
(Amounts in Thousands)

Description of Issue	Original Principal Bonds Issued To Date	Range of		Scheduled Maturities		First Call Date
		Interest	Rates	First Year	Last Year	
1984 MF Private Placement (Summer Bend)	\$ 10,100	(c)		1985	2022	09/01/86
1987 South Texas Rental Housing	1,400	9.50%	9.50%	1988	2012	02/01/88
1993 MF Series A&B (RemHill/HighPt Ref)	26,370	(Weekly rates)		2023	2023	02/01/00
1993 Res Ren Project Revenue Bonds	16,775	3.30%	5.80%	1994	2024	01/01/04
1996 MF Series A&B (Brighton's Mark)	10,174	6.13%	6.13%	2026	2026	01/01/03
1996 MF Series A&B (Las Colinas)	15,469	5.65%	5.65%	2026	2026	01/01/03
1996 MF Series A&B (Braxton's Mark)	14,867	5.81%	5.81%	2026	2026	01/01/03
1996 MF Series A-D (DFW Pool)	22,150	6.00%	10.00%	1997	2026	07/01/06
1996 MF Series A-D (Harbors & Plumtree)	13,050	5.90%	10.00%	1997	2026	07/01/06
1996 MF Series A&B (NHP Foundation)	27,560	5.50%	6.40%	1997	2027	07/01/07
1997 MF Series (Meadow Ridge)	13,575	5.05%	5.55%	2001	2030	02/01/01
1998 MF Series (Pebble Brook)	10,900	4.95%	5.60%	2001	2030	06/01/01
1998 MF Series A-C (Residence Oaks)	8,200	5.98%	7.18%	2001	2030	05/01/01
1998 MF Series (Volente)	10,850	5.00%	5.63%	2001	2031	07/01/01
1998 MF Series (Dallas-Oxford Refndg)	10,300	7.25%	7.25%	2018	2018	01/01/04
1998 MF Series (Greens of Hickory Trail)	13,500	5.20%	6.03%	2001	2030	09/01/08
1999 MF Series (Mayfield)	11,445	5.70%	7.25%	2002	2031	05/01/02
1999 MF Series (Woodglen Village)	10,660	7.38%	8.25%	2002	2040	12/01/16
2000 MF Series (Timber Point Apts)	8,100	(variable rate)		2003	2032	07/01/00
2000 MF Series (Oaks @ Hampton)	10,060	7.20%	9.00%	2002	2040	03/01/17
2000 MF Series (Deerwood)	6,435	5.25%	6.40%	2003	2033	06/01/10
2000 MF Series (Creek Pt)	7,200	(variable rate)		2004	2032	07/01/00
2000 MF Series (Parks Westmoreld)	9,990	7.20%	9.00%	2002	2040	07/01/17
2000 MF Series (Honey Creek)	20,485	7.63%	8.15%	2004	2035	06/30/07
TOTAL MULTIFAMILY BONDS	309,615					
TOTAL BONDS ISSUED	\$ 2,093,171					

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

Miscellaneous Bond Information

August 31, 2000

FOOTNOTES:

- (a) Interest payment is equal to the sum of all interest payments received with respect to the Mortgage Certificates, less the Agency Expense amount; and all earnings resulting from the investment of moneys on deposit in Funds established by the Indenture (not including the Cost of Issuance, Expense and Rebate Funds), less the rebate amount.
- (b) Interest payable on the bonds is an amount equal to the sum of all amounts transferred to the Interest Fund pursuant to the Trust Indenture which amount generally represents certain capitalized interest amounts, amounts representing interest on the GNMA Certificates, and certain investment earnings.
- (c) Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.

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

Changes in Bond Indebtedness

August 31, 2000

Description of Issue	Bonds Outstanding 09/01/1999	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2000
1991 Single-family Series A	\$ 30,135,000	-	1,975,000	7,975,000	20,185,000
1994 Jr Lien Mtg Rev Bonds Series A	5,000,000	-	-	-	5,000,000
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	15,907,301	1,064,465	-	3,606,297	13,365,469
1994 Jr Lien Mtg Rev Bonds Series B	4,850,000	-	-	4,850,000	-
1995 Single-family Series A	79,875,000	-	925,000	2,785,000	76,165,000
1995 Single-family Series B	6,810,000	-	-	3,165,000	3,645,000
1995 Single-family Series C	46,405,000	-	-	5,875,000	40,530,000
1996 Single-family Series A	10,225,000	-	-	250,000	9,975,000
1996 Single-family Series B	33,480,000	-	-	7,200,000	26,280,000
1996 Single-family Series C	2,000,000	-	-	2,000,000	-
1996 Single-family Series D	67,710,000	-	-	3,655,000	64,055,000
1996 Single-family Series E	79,070,000	-	2,615,000	7,800,000	68,655,000
1997 Single-family Series A	44,245,000	-	-	415,000	43,830,000
1997 Single-family Series B	9,510,000	-	-	-	9,510,000
1997 Single-family Series C	25,155,000	-	-	1,905,000	23,250,000
1997 Single-family Series D	44,795,000	-	-	-	44,795,000
1997 Single-family Series E	14,295,000	-	-	6,275,000	8,020,000
1997 Single-family Series F	19,660,000	-	-	1,035,000	18,625,000
1988 RMRB Series A	33,540,000	-	525,000	430,000	32,585,000
1989 RMRB Series A	8,200,000	-	120,000	3,400,000	4,680,000
1989 RMRB Series B	8,805,000	-	-	3,675,000	5,130,000
1998 RMRB Series A	102,055,000	-	-	1,605,000	100,450,000
1998 RMRB Series B	14,300,000	-	-	220,000	14,080,000
1999 RMRB Series A	25,615,000	-	-	3,535,000	22,080,000
1999 RMRB Series B-1	-	52,260,000	-	335,000	51,925,000
1999 RMRB Series B-2 (COBs)	-	50,000,000	-	50,000,000	-
1999 RMRB Series C	-	12,150,000	-	-	12,150,000
1999 RMRB Series D	-	26,355,000	295,000	890,000	25,170,000
2000 RMRB Series A	-	50,000,000	-	-	50,000,000
1989 GNMA Series A	11,868,409	-	531,857	11,336,552	-
1989 GNMA Series B	15,455,389	-	436,109	15,019,280	-
1990 Coll Home Mtg Rev Bds Series A	910,000	-	425,000	485,000	-
1990 Coll Home Mtg Rev Bds Series B	21,670,000	-	-	21,670,000	-
1991 Coll Home Mtg Rev Bds Series A	18,955,000	-	265,000	2,565,000	16,125,000
1992 Coll Home Mtg Rev Bds Series B	16,200,000	-	-	9,400,000	6,800,000
1992 Coll Home Mtg Rev Bds Series C	72,700,000	-	-	-	72,700,000
1993 SF MRB CHMRB Series A	8,365,000	-	-	1,075,000	7,290,000
1993 SF MRB CHMRB Series B	10,795,000	-	-	1,440,000	9,355,000
1993 SF MRB CHMRB Series C	11,240,000	-	-	1,230,000	10,010,000
1993 SF MRB CHMRB Series D	5,330,000	-	-	575,000	4,755,000
1993 SF MRB CHMRB Series E	4,320,000	-	-	365,000	3,955,000
1994 SF MRB CHMRB Series A	28,115,000	-	-	1,840,000	26,275,000
1994 SF MRB CHMRB Series B	27,775,000	-	-	2,855,000	24,920,000
1994 SF MRB CHMRB Series C	13,165,000	-	-	950,000	12,215,000
1995 SF MRRB CHMRB Series A	2,615,000	-	-	670,000	1,945,000
1995 SF MRRB CHMRB Series B	170,000	-	-	170,000	-
TOTAL SINGLE-FAMILY BONDS	\$ 1,001,291,099	191,829,465	8,112,966	194,527,129	990,480,469

(Continued)

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

Changes in Bond Indebtedness

August 31, 2000

Description of Issue	Bonds Outstanding 09/01/1999	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2000
1984 MF Private					
Placement (Summer Bend)	\$ 8,480,000	-	120,000	-	8,360,000
1987 MF South Texas Rental Housing	1,107,537	-	43,423	-	1,064,114
1993 MF Series A&B (RemHill/HighPt Ref)	12,490,000	-	-	-	12,490,000
1993 MF Res Ren Project Revenue Bonds	15,440,000	-	295,000	-	15,145,000
1996 MF Series A&B (Brighton's Mark)	8,075,000	-	-	-	8,075,000
1996 MF Series A&B (Las Colinas)	14,869,512	-	-	-	14,869,512
1996 MF Series A&B (Braxton's Mark)	14,273,700	-	-	-	14,273,700
1996 MF Series A-D (DFW Pool)	21,500,000	-	295,000	-	21,205,000
1996 MF Series A-D (Harbors & Plumtree)	12,585,000	-	175,000	-	12,410,000
1996 MF Series A&B (NHP Foundation)	26,730,000	-	395,000	-	26,335,000
1997 MF Series (Meadow Ridge)	13,575,000	-	-	-	13,575,000
1998 MF Series (Pebblebrook)	10,900,000	-	-	-	10,900,000
1998 MF Series A-C (Residence at the Oaks)	8,200,000	-	-	-	8,200,000
1998 MF Series (Volente)	10,850,000	-	-	-	10,850,000
1998 MF Series (Dallas-Oxford Rfdg)	10,300,000	-	-	-	10,300,000
1998 MF Series A&B (Greens of Hickory Trail)	13,500,000	-	-	-	13,500,000
1999 MF Series A-C (Mayfield)	11,445,000	-	-	-	11,445,000
2000 MF Series (Woodglen Village)	-	10,660,000	-	-	10,660,000
2000 MF Series (Timber Point Apts)	-	8,100,000	-	-	8,100,000
2000 MF Series (Oaks @ Hampton)	-	10,060,000	-	-	10,060,000
2000 MF Series (Deerwood Apts)	-	6,435,000	-	-	6,435,000
2000 MF Series (Creek Point Apts)	-	7,200,000	-	-	7,200,000
2000 MF Series A/B (Parks @ Westmoreland)	-	9,990,000	-	-	9,990,000
2000 MF Series (Honeycreek)	-	20,485,000	-	-	20,485,000
TOTAL MULTIFAMILY BONDS	214,320,749	72,930,000	1,323,423	-	285,927,326
TOTAL BONDS ISSUED	\$ 1,215,611,848	264,759,465	9,436,389	194,527,129	1,276,407,795 (b)

FOOTNOTES:

(a) Bond accretions

(b) Bonds outstanding balance at 8/31/00 does not include unamortized premium or discount.

Bonds outstanding per schedule	\$ 1,276,407,795
Unamortized premium (discount):	
Single-family	257,701
RMRB	1,427,669
CHMRB	2,001,971
Multifamily	(111,109)
Unamortized deferred loss on refunding:	
Single-family	(5,546,049)
RMRB	(2,201,412)
Bonds outstanding per Exhibit I	\$ 1,272,236,566

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

Debt Service Requirements

August 31, 2000

(Amounts in Thousands)

Description	2001	2002	2003	2004	2005	2006 & Beyond	Total Requirements
1991 Single-family Series A	\$ 3,343	2,263	1,210	1,210	9,490	11,075	28,591
1994 Jr Lien Mtg Rev Bond Series A	405	405	405	405	405	22,618	24,643
1994 Jr Lien Mtg Rev Bond Series B	-	-	-	-	-	-	-
1995 Single-family Series A	5,121	5,122	5,127	4,964	4,426	156,472	181,232
1995 Single-family Series B	190	190	190	345	878	3,089	4,882
1995 Single-family Series C	3,043	3,043	3,043	3,043	3,043	66,177	81,392
1996 Single-family Series A	628	628	628	628	628	24,745	27,885
1996 Single-family Series B	1,558	1,558	1,558	1,558	1,558	43,712	51,502
1996 Single-family Series C	-	-	-	-	-	-	-
1996 Single-family Series D	3,899	3,899	3,899	3,899	3,899	149,975	169,470
1996 Single-family Series E	6,331	6,320	6,285	6,288	6,260	82,338	113,822
1997 Single-family Series A	2,467	2,467	2,467	2,467	2,467	92,444	104,779
1997 Single-family Series B	518	518	518	518	518	16,768	19,358
1997 Single-family Series C	1,581	1,581	1,581	1,581	1,581	61,985	69,890
1997 Single-family Series D	2,542	2,542	2,542	2,542	2,542	106,445	119,155
1997 Single-family Series E	401	401	401	401	401	12,431	14,436
1997 Single-family Series F	1,261	1,261	1,261	1,261	1,261	49,517	55,822
TOTAL SINGLE-FAMILY BONDS	33,288	32,198	31,115	31,110	39,357	899,791	1,066,859
1988 Res Mtg Revenue Bonds, Series A	3,046	3,062	3,062	2,318	2,318	52,605	66,411
1989 Res Mtg Revenue Bonds, Series A	352	352	352	352	352	7,996	9,756
1989 Res Mtg Revenue Bonds, Series B	403	403	403	403	403	10,364	12,379
1998 Res Mtg Revenue Bonds, Series A	4,988	5,913	6,841	6,831	6,820	187,541	218,934
1998 Res Mtg Revenue Bonds, Series B	746	746	746	746	746	26,523	30,253
1999 Res Mtg Revenue Bonds, Series A	1,097	1,097	1,097	1,097	1,097	37,090	42,575
1999 Res Mtg Revenue Bonds, Series B-1	3,435	3,435	3,435	3,435	3,435	129,313	146,488
1999 Res Mtg Revenue Bonds, C	749	749	844	854	864	24,394	28,454
1999 Res Mtg Revenue Bonds, D	2,182	2,188	2,191	2,191	2,197	35,308	46,257
2000 Res Mtg Revenue Bonds, A	3,790	3,032	3,595	3,595	3,603	113,886	131,501
TOTAL RESIDENTIAL MTG REVENUE BONDS	20,788	20,977	22,566	21,822	21,835	625,020	733,008
1989 GNMA, Series A	-	-	-	-	-	-	-
1989 GNMA, Series B	-	-	-	-	-	-	-
TOTAL GNMA	-	-	-	-	-	-	-
1990 Coll Home Mtg Rev Bonds, Series A	-	-	-	-	-	-	-
1990 Coll Home Mtg Rev Bonds, Series B	-	-	-	-	-	-	-
1991 Coll Home Mtg Rev Bonds, Series A	1,352	1,332	1,070	1,070	1,070	32,386	38,280
1992 Coll Home Mtg Rev Bonds, Series A	-	-	-	-	-	-	-
1992 Coll Home Mtg Rev Bonds, Series B	463	463	463	463	463	15,128	17,443
1992 Coll Home Mtg Rev Bonds, Series C	4,947	4,947	4,947	4,947	4,947	166,701	191,436
TOTAL COLL HOME MTG REVENUE BONDS	6,762	6,742	6,480	6,480	6,480	214,215	247,159
1993 Single-Family CHMRB, Series A	426	426	426	426	426	15,928	18,058
1993 Single-Family CHMRB, Series B	619	619	619	619	619	21,897	24,992
1993 Single-Family CHMRB, Series C	669	669	669	669	669	23,549	26,894
1993 Single-Family CHMRB, Series D	321	321	321	321	321	11,266	12,871
1993 Single-Family CHMRB, Series E	271	271	271	271	271	9,441	10,796
Total Single-Family CHMRB 1993	2,306	2,306	2,306	2,306	2,306	82,081	93,611

(Continued)

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

Debt Service Requirements

August 31, 2000
(Amounts in Thousands)

Description	2001	2002	2003	2004	2005	2006 & Beyond	Total Requirements
1994 Single-Family CHMRB, Series A	1,800	1,800	1,800	1,800	1,800	64,521	73,521
1994 Single-Family CHMRB, Series B	1,595	1,595	1,595	1,595	1,595	58,811	66,786
1994 Single-Family CHMRB, Series C	763	763	763	763	763	28,440	32,255
TOTAL SINGLE-FAMILY CHMRB 1994	4,158	4,158	4,158	4,158	4,158	151,772	172,562
1995 Single-Family CHMRB, Series A	122	122	122	122	122	3,192	3,802
1995 Single-Family CHMRB, Series B	-	-	-	-	-	-	-
TOTAL SINGLE-FAMILY CHMRB 1995	122	122	122	122	122	3,192	3,802
1984 MF Private Placement (Summer Bend)	930	797	735	735	735	20,868	24,800
1987 MF Series (South Texas Rental Housing)	147	146	147	146	147	1,077	1,810
1993 MF Series A&B (Reming. Hill/HP)	500	500	500	500	500	21,481	23,981
1993 MF Res Ren Proj Rev Bonds	1,174	1,178	1,176	813	813	25,499	30,653
1996 MF Series A&B (Brighton's Mark)	495	495	495	495	495	18,470	20,945
1996 MF Series A&B (Las Colinas)	840	840	840	840	840	32,513	36,713
1996 MF Series A&B (Braxton's Mark)	829	829	829	829	829	31,691	35,836
1996 MF Series A-D (Dallas-Ft. Worth Pool)	1,790	1,789	1,787	1,794	1,789	37,472	46,421
1996 MF Series A-D (Harbors & Plumtree)	1,040	1,043	1,045	1,046	1,047	21,890	27,111
1996 MF Series A&B (NHP Foundation)	2,071	2,068	2,063	2,067	2,075	44,440	54,784
1997 MF Series (Meadow Ridge)	899	901	907	908	908	26,281	30,804
1998 MF Series (Pebblebrook)	661	726	730	727	730	19,520	23,094
1998 MF Series A-C (Residence at the Oaks)	543	591	592	590	592	17,648	20,556
1998 MF Series (Volente)	665	725	729	732	734	19,532	23,117
1998 MF Series (Dallas-Oxford Rfdg)	747	747	747	747	747	19,758	23,493
1998 MF Series A&B (Greens of Hickory Trail)	799	872	878	878	877	23,646	27,950
1999 MF Series A-C (Mayfield)	657	802	798	797	797	20,682	24,533
1999 MF Series (Woodglen Village)	786	793	830	830	830	30,434	34,503
2000 MF Series (Timber Point Apts)	4,380	4,380	4,371	4,422	4,368	80,985	102,906
2000 MF Series (Oaks @ Hampton)	734	752	778	778	778	26,875	30,695
2000 MF Series (Deerwood)	437	403	443	475	471	15,103	17,332
2000 MF Series (Creek Pt)	3,691	3,691	3,691	3,744	3,705	69,290	87,812
2000 MF Series (Parks Westmoreld)	851	855	896	896	896	29,978	34,372
2000 MF Series (Honey Creek)	1,562	1,562	1,562	1,571	1,670	56,893	64,820
TOTAL MULTIFAMILY BONDS	27,228	27,485	27,569	27,360	27,373	712,026	849,041
TOTAL ALL BONDS	\$ 94,652	93,988	94,316	93,358	101,631	2,688,097	3,166,042

Notes: The actual maturity of any class of bonds may be shorter than its stated maturity as a result of prepayments on the mortgage certificates or loans. No assurance can be given as to the rates of prepayments that actually will occur.

Interest does not include accretions on capital appreciation bonds or amortization of premium/discount on bonds.

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

Analysis of Funds Available for Debt Service - Revenue Bonds

August 31, 2000

(Amounts in the Thousands)

Description of Issue	Pledge and Other Sources Related Expenditures for FY 2000						Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	
Single Family:							
Series 82A,83A,84 A&B,85A, 85B/C 86A, 86B,87A/B,91A,94A/B,95A/B,95C 96A-C, 96D/E, 97 A-F	\$ 13,745	24,028	58,791	96,564	177	2,322	94,419
Residential Mortgage Revenue Bonds:							
Series 88A,89 A/B, 98 A/B, 99A 99B/C/D, 2000 A	682	18,824	64,090	83,596	572	848	83,320
GNMA, Series 1989A & 1989B	9	559	26,356	26,924	26	14	26,936
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	1,220	8,852	34,120	44,192	-	191	44,001
SF MRB CHMRB Series 1993 A-E	-	2,578	4,685	7,263	-	33	7,230
SF MRB CHMRB Series 1994 A-C	-	4,457	5,645	10,102	-	37	10,065
SF MRB CHMRB Series 1995 A&B	-	306	840	1,146	-	4	1,142
TOTAL SINGLE FAMILY	15,656	59,604	194,527	269,787	775	3,449	267,113
Multi Family:							
1982 MF Series A (BMIR)	-	-	-	-	-	26	(26)
1984 MF Series A&B (Oxford)	747	-	-	747	26	-	773
1984 MF Private Placement (Summerbend)	802	-	-	802	34	1	835
1987 MF South Texas Rental Housing	103	70	-	173	-	-	173
1993 MF Series I (Colorado Club)	-	1	-	1	-	-	1
1993 MF Series A&B (RemHill/HighPt Ref)	492	-	-	492	44	5	531
1993 MF Res Ren Project Revenue Bonds	870	-	-	870	54	-	924
1996 MF Series A/B Brighton's/Las Colinas)	1,364	-	-	1,364	29	6	1,387
1996 MF Series A/B (Braxton's Mark)	848	-	-	848	18	3	863
1996 MF Series A-D (Dallas-Pt Worth Pool)	1,497	-	-	1,497	54	-	1,551
1996 MF Series A-D (Harbors & Plumtree)	871	-	-	871	31	-	902
1996 MF Series A/B (NHP Foundation)	1,670	-	-	1,670	67	-	1,737
1997 MF Series (Meadow Ridge)	746	-	-	746	4	-	750
1998 MF Series (Pebble Brook)	596	-	-	596	26	-	622
1998 MF Series A-C (Residence Oaks)	492	-	-	492	20	-	512
1998 MF Series (Volente)	600	-	-	600	29	-	629
1998 MF Series (Dallas-Oxford Rfdg)	729	-	-	729	14	-	743
1998 MF Series (Greens of Hickory Trail)	611	-	-	611	9	-	620
1998 MF Series (Mayfield)	657	-	-	657	12	-	669
2000 MF Series (Timber Pt)	128	-	-	128	3	-	131
2000 MF Series (Oaks @ Hampton)	253	-	-	253	4	-	257
2000 MF Series (Deerwood)	110	-	-	110	2	-	112
2000 MF Series (Creek Pt)	83	-	-	83	1	-	84
2000 MF Series (Parks Westmoreld)	104	-	-	104	2	-	106
2000 MF Series (Honey Creek)	174	-	-	174	5	-	179
TOTAL MULTIFAMILY	14,547	71	-	14,618	488	41	15,065
TOTAL	\$ 30,203	59,675	194,527	284,405	1,263	3,490	282,178

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

Analysis of Funds Available for Debt Service - Revenue Bonds

August 31, 2000
(Amounts in the Thousands)

Description of Issue	Debt Service			Interest & Sinking Fund		Reserve Fund	
	Principal	Interest	Refunded or Extinguished	Minimum	Actual	Minimum	Actual
Single Family:							
Series 82A, 83A, 84A&B, 85A, 85B/C 86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C 96A-C, 96D/E, 97 A-F	\$ 5,515	30,862	58,791	n/a	n/a	4,070	5,752
Residential Mortgage Revenue Bonds:							
Series 88A, 89A/B, 98A/B, 99A 99B/C/D, 2000A	940	16,691	64,090	n/a	n/a	2,332	2,294
GNMA, Series 1989A & 1989B	968	563	26,356	n/a	n/a	n/a	n/a
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	690	8,327	34,120	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1993 A-E	-	2,436	4,685	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1994 A-C	-	4,329	5,645	n/a	n/a	n/a	n/a
SF MRB CHMRB Series 1995 A&B	-	143	840	n/a	n/a	n/a	n/a
TOTAL SINGLE FAMILY	8,113	63,351	194,527	-	-	6,402	8,046
Multi Family:							
1982 MF Series A (BMIR)	-	-	-	n/a	n/a	n/a	n/a
1984 MF Series A&B (Oxford)	-	-	-	n/a	n/a	n/a	n/a
1984 MF Private Placement (Summerbend)	120	801	-	n/a	n/a	n/a	n/a
1987 MF South Texas Rental Housing	43	103	-	n/a	n/a	1,064	1,177
1991 MF Series A&B (Phoenix Mutual)	-	-	-	n/a	n/a	n/a	n/a
1993 MF Series I (Colorado Club)	-	-	-	n/a	n/a	n/a	n/a
1993 MF Series A&B (RemHill/HighPt Ref)	-	487	-	n/a	n/a	n/a	n/a
1993 MF Series (NCHMP)	295	870	-	n/a	n/a	n/a	n/a
1996 MF Series A/B Brighton's/Las Colinas)	-	1,357	-	n/a	n/a	n/a	n/a
1996 MF Series A/B (Braxton's Mark)	-	843	-	n/a	n/a	n/a	n/a
1996 MF Series A-D (Dallas-Ft Worth Pool)	295	1,497	-	n/a	n/a	n/a	n/a
1996 MF Series A-D (Harbors & Plumtree)	175	871	-	n/a	n/a	n/a	n/a
1996 MF Series A/B (NHP Foundation)	395	1,670	-	n/a	n/a	n/a	n/a
1997 MF Series (Meadow Ridge)	-	746	-	n/a	n/a	n/a	n/a
1998 MF Series (Pebble Brook)	-	596	-	n/a	n/a	n/a	n/a
1998 MF Series A-C (Residence Oaks)	-	492	-	n/a	n/a	n/a	n/a
1998 MF Series (Volente)	-	600	-	n/a	n/a	n/a	n/a
1998 MF Series (Dallas-Oxford Rfdg)	-	747	-	n/a	n/a	n/a	n/a
1998 MF Series (Greens of Hickory Trail)	-	727	-	n/a	n/a	n/a	n/a
1998 MF (Mayfield Apts)	-	657	-	n/a	n/a	n/a	n/a
1999 MF (Woodglen)	-	611	-	n/a	n/a	n/a	n/a
2000 MF Series (Timber Point)	-	128	-	n/a	n/a	n/a	n/a
2000 MF Series (Oaks @ Hampton)	-	253	-	n/a	n/a	n/a	n/a
2000 MF Series (Deerwood Apts)	-	110	-	n/a	n/a	n/a	n/a
2000 MF Series (Creek Point Apts)	-	83	-	n/a	n/a	n/a	n/a
2000 MF Series (Parks @ Westmoreland)	-	104	-	n/a	n/a	n/a	n/a
2000 MF Series (Honey Creek)	-	174	-	n/a	n/a	n/a	n/a
MULTIFAMILY	1,323	14,527	-	-	-	1,064	1,177
TOTAL	\$ 9,436	77,878	194,527	-	-	7,466	9,223

APPENDIX D-2

UNAUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND
FOR SEVEN-MONTH PERIOD ENDED
MARCH 31, 2001

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at March 31, 2001
(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	Comb
ASSETS									
Cash	\$ 36,830	\$	\$	\$ 141,976	\$	\$	\$	\$ 655,892	\$ 8
Cash Equivalents	10,747,705	18,672,608	1,990,392	7,652,846	982,520	451,547	5,776,983	11,472,991	57.7
Investments, fair value	29,154,560	148,078,893	4,408,890	104,565,560		579,216			286.7
Mortgage-backed securities, fair value	309,414,828	272,301,722	88,085,108		32,690,245	62,494,655			764.9
Loans Receivable, net	124,996,318	4,644,638		353,961,984				128,244	483.7
Real Estate Owned, net	316,940	(1,239)							3
Notes Receivable								1,000,000	1.0
Accrued Interest Receivable	3,019,104	4,366,631	520,836	1,434,309	184,927	357,722	9,816	14,285	9.9
Deferred Issuance Costs, net	5,103,055	4,925,508	1,002,449	760,078	274,639	337,571			12.4
Other Assets	2,504,785	(297)		40,886				444,055	2.9
TOTAL ASSETS	\$ 485,294,125	\$ 452,988,264	\$ 96,007,675	\$ 468,557,639	\$ 34,132,331	\$ 64,220,711	\$ 5,786,799	\$ 13,715,467	\$ 1,620.7
LIABILITIES AND FUND BALANCES									
Bonds Payable	\$ 434,970,543	\$ 435,513,111	\$ 92,767,084	\$ 355,166,192	\$ 33,080,000	\$ 62,380,000	\$	\$	\$ 1,413.8
Commercial Paper Notes Payable							5,690,000		5.6
Accrued Interest Payable	2,255,294	8,217,836	495,450	3,314,736	179,751	340,541	8,705		14.8
Accounts Payable and Other									
Accrued Expenses	35,989	2,100		691				482,220	5
Other Liabilities	7,400,093	2,748,111	1,286,792	108,706,607	994	16,511	86,983	51,868	120.2
TOTAL LIABILITIES	444,661,919	446,481,158	94,549,326	467,188,226	33,260,745	62,737,052	5,785,688	534,088	1,555.1
Restricted Fund Balance	40,632,206	6,507,106	1,458,349	1,369,413	871,586	1,483,659	1,111	13,181,379	65.5
TOTAL LIABILITIES AND FUND BALANCES	\$ 485,294,125	\$ 452,988,264	\$ 96,007,675	\$ 468,557,639	\$ 34,132,331	\$ 64,220,711	\$ 5,786,799	\$ 13,715,467	\$ 1,620.7

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
For the Seventh Period Ending March 31, 2001
(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	Combi Totals
Interest Revenue:									
Loans	\$ 6,680,539	\$ 292,232		\$ 12,510,353	\$	\$	\$	\$ 6,763	\$ 19,463
Investments	13,298,770	15,440,880	3,886,654	40,266	1,373,536	2,597,342	252,217	467,101	37,355
Real Estate Owned	79,362								79,362
Total Interest Revenue	20,058,671	15,733,112	3,886,654	12,550,619	1,373,536	2,597,342	252,217	473,864	56,922
Interest Expense:									
Interest on Bonds	16,521,729	13,971,752	3,766,805	12,510,359	1,295,476	2,432,630			50,495
Interest on Commercial Paper							262,144		262,144
Net Interest Revenue	3,536,942	1,761,360	119,849	40,260	78,060	164,712	(9,927)	473,864	6,163
Other Revenue:									
Commitment Fees	195,970	63,330	42,948	9,869					312,117
Other	73,553	1,239,753		300,643				1,990,239	3,603,328
Total Other Revenue	269,523	1,303,083	42,948	310,512	0	0	0	1,990,239	3,915,447
Other Expenses:									
Amortization of Deferred Issuance Costs	160,966	113,971	16,879	8,728	6,710	8,065			315,324
Mortgage Loan Servicing Fees	283,195	11,541							294,736
Trustee Fees	84,475	58,978	5,868	124	6,009	14,634	1,872	995	172,855
Mortgage Pool, Bond & Self Insurance	122,409								122,409
Provision for Estimated Losses on Loans	11,160	(9,397)							1,763
Other	42,134	526,604	67,395						636,133
General and Administrative									3,615,838
Total Other Expenses	704,359	701,697	90,142	8,852	12,779	22,699	29,563	3,618,678	5,165,837
Operating Income (Loss)	3,102,106	2,362,746	72,655	341,920	65,281	142,013	(39,490)	(1,154,575)	4,850,056
Gain (Loss) on Early Extinguishment of Debt	(577,254)	(120,218)	50,270		(19,339)	(16,738)			(682,969)
Realized & Unrealized Gains (Losses) on Investments	13,956,633	7,227,899	2,500,253		1,061,169	1,983,021			26,729,025
Operating Transfers, net	(793,062)	(85,801)	(17,256)	(298,225)	(31,975)	(73,785)	19,890	2,083,451	81,000
Net Income (Loss)	\$ 15,688,423	\$ 9,384,626	\$ 2,605,922	\$ 43,695	\$ 1,075,136	\$ 2,034,511	\$ (19,600)	\$ 938,876	\$ 31,750,008
Restricted fund balance, beginning of period	24,943,783	(2,877,520)	(1,147,573)	1,325,718	(203,550)	(560,852)	20,711	12,242,503	33,754,112
Equity Transfers									
RESTRICTED FUND BALANCE, END OF PERIOD	\$ 40,632,206	\$ 6,507,106	\$ 1,458,349	\$ 1,369,413	\$ 871,586	\$ 1,483,659	\$ 1,111	\$ 13,181,379	\$ 65,504,112

APPENDIX E

**FORM OF PROPOSED OPINION OF BOND COUNSEL
FOR SERIES 2001 BONDS**

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
ONE AMERICAN CENTER
SUITE 2700
600 CONGRESS AVENUE
AUSTIN, TEXAS 78701-3200
TELEPHONE (512) 495-8400
FAX (512) 495-8612

October __, 2001

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Residential Mortgage Revenue Bonds, in three series to be known as (i) its Residential Mortgage Revenue Bonds, Series 2001A (the "Series 2001A Bonds"), (ii) its Residential Mortgage Revenue Refunding Bonds, Series 2001B (the "Series 2001B Bonds"), and (iii) its Residential Mortgage Revenue Refunding Bonds, Series 2001C (the "Series 2001C Bonds") (collectively, the "Series 2001 A/B/C Bonds"). The initially issued Series 2001 A/B/C Bonds shall bear interest from October 1, 2001. Interest on the Series 2001 A/B/C Bonds is payable July 1, 2002, and semiannually thereafter on each January 1 and July 1 until maturity or prior redemption. The Series 2001 A/B/C Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2001 A/B/C 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 2001 A/B/C BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on August 21, 2001 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1987, between the Department and Bank One, National Association, as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "RMRB Indenture"), a Twentieth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001 (the "Twentieth Series Supplement") relating to the Series 2001A Bonds, a Twenty-First Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001 (the "Twenty-First Series Supplement") relating to the Series 2001B Bonds, and a Twenty-Second Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001 (the "Twenty-Second Series Supplement") relating to the Series 2001C Bonds (the Twentieth Series Supplement, the Twenty-First Series Supplement and the Twenty-Second Series Supplement shall be referred to collectively as the "Supplemental Indentures"). The RMRB Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series 2001A Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans and paying a portion of the costs of issuance of the Series 2001 A/B/C Bonds. The Series 2001B Bonds are being issued for the purpose of refunding the Department's outstanding Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT). The Series 2001C Bonds are being issued for the purpose of refunding a portion of the Department's outstanding Residential Mortgage Revenue Bonds, Series 1988A and Residential Mortgage Revenue Bonds, Series 1989A. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2001 A/B/C Bonds upon the terms and conditions set forth in the Indenture. The Department reserves the right in the Indenture to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 2001 A/B/C 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 2001 A/B/C Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2001 A/B/C Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2001 A/B/C 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 2001 A/B/C Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. TR-1 of each series of the Series 2001 A/B/C Bonds.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Series 2001 A/B/C Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Series 2001 A/B/C Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Texas Housing Agency's Residential Mortgage Revenue Bonds Series 1989A and Residential Mortgage Revenue Bonds, Series 1989B, and the Department's Residential Mortgage Revenue Bonds, Series 1998A, Residential Mortgage Revenue Refunding Bonds, Series 1998B, Residential Mortgage Revenue Refunding Bonds, Series 1999A, Residential Mortgage Revenue Bonds, Series 1999B, Residential Mortgage Revenue Refunding Bonds, Series 1999C, Residential Mortgage Revenue Refunding Bonds, Series 1999D, Residential Mortgage Revenue Refunding Bonds, Series 2000A, Residential Mortgage Revenue Bonds, Series 2000B, Residential Mortgage Revenue Refunding Bonds, Series 2000C, Residential Mortgage Revenue Refunding Bonds, Series 2000D and Residential Mortgage Revenue Bonds, Taxable Series 2000E, all issued under the RMRB Indenture, and the Residential Mortgage Revenue Bonds, Series 2001D and Residential Mortgage Revenue Bonds, Series 2001E being delivered by the Department concurrently with the delivery of the Series 2001 A/B/C Bonds.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2001 A/B/C Bonds. The authorized officers of the Department have duly executed the Series 2001 A/B/C Bonds and the Trustee has duly authenticated the Series 2001 A/B/C Bonds, to the extent required by the Indenture, and delivered the Series 2001 A/B/C Bonds to the initial purchasers thereof. The Series 2001 A/B/C 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 2001 A/B/C Bonds that we have examined are regular and proper.

4. The Series 2001 A/B/C 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 2001 A/B/C 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 2001 A/B/C 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 2001 A/B/C 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 2001 A/B/C Bonds is excludable from gross income for federal income tax purposes under existing law.

7. Interest on the Series 2001A Bonds and the Series 2001B Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of calculating the federal alternative minimum tax on individuals and corporations under existing law.

8. Interest on the Series 2001C Bonds is not includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, except that interest on the Series 2001C Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, a regulated investment company, a REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

IN PROVIDING THE OPINIONS set forth in paragraphs 6, 7 and 8 above with respect to the Series 2001 A/B/C Bonds, we have relied on representations of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, respectively, which we have not independently verified, and have assumed continuing compliance with the procedures, safeguards and covenants in the Indenture and other documents relating to the requirements of the Internal Revenue Code of 1986, as amended. We have further relied on the report (the "Report") of Causey Demgen & Moore, Inc., certified public accountants, regarding the mathematical accuracy of certain computations. In the event that any of such representations or the Report is determined to be inaccurate or incomplete or the Department, a Mortgage Lender, or the Servicer fails to comply with the foregoing procedures, safeguards and covenants in the Indenture, interest on the Series 2001 A/B/C Bonds could become includable in gross income for federal income tax purposes under existing law from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

EXCEPT AS STATED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Series 2001 A/B/C Bonds.

HOLDERS OF THE Series 2001 A/B/C Bonds should also be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits" tax on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2001 A/B/C Bonds.

THE OPINIONS SET FORTH ABOVE are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2001 A/B/C Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer. We observe that the Department has covenanted in the Supplemental Indentures not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2001 A/B/C Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

APPENDIX F-1

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

Additional Information Concerning Mortgage Loans And Mortgage Certificates

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

Part I: Residential Mortgage Revenue Bond Trust Indenture

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1987 Series A ⁽¹⁾	\$ 30,000,000	\$ -	-	-	-
1987 Series D ⁽¹⁾	47,000,000	-	-	-	-
1988 Series A	40,920,000	32,075,000	6.50/6.69/7.69% 8.69/9.25%	\$ 39,432,829	\$ 13,901,338
1989 Series A/B	89,000,000	6,645,000	7.69/8.69%	77,819,827	25,016,427
1998 Series A/B ⁽²⁾	116,355,000	113,770,000	5.85%	116,272,111	112,499,273
1999 Series A	25,615,000	20,685,000	5.85/8.00/9.25/9.55%	69,543,745	20,512,494
1999 Series B/C/D ⁽³⁾	140,765,000	87,590,000	7.68/8.68/9.25/6.60%	132,760,496	70,090,287
2000 Series A	50,000,000	50,000,000	6.95%	29,139,866	28,929,917
2000 Series B/C/D/E ⁽⁴⁾	124,915,000	124,915,000	6.60%	12,436,292	12,371,666
TOTAL	\$ 664,570,000	\$ 435,680,000		\$ 477,405,166	\$ 283,321,402

- (1) The Residential Mortgage Revenue Bonds 1987 Series A and 1987 Series D were refunded by the Residential Mortgage Revenue Bonds 1999 Series A. The Mortgage Loans associated with the Residential Mortgage Revenue Bonds 1987 Series A and 1987 Series D were transferred to the Residential Mortgage Revenue Bonds 1999 Series A.
- (2) The Residential Mortgage Revenue Bonds 1998 Series A and the Residential Mortgage Revenue Refunding Bonds 1998 Series B provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Residential Mortgage Revenue Bonds 1998 Series B refunded certain commercial paper notes totaling \$14,300,000 which previously redeemed certain Bonds outstanding.
- (3) The Residential Mortgage Revenue Bonds 1999 Series B-1 and the Residential Mortgage Revenue Refunding Bonds 1999 Series C provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Residential Mortgage Revenue Refunding Bonds 1999 Series C refunded certain commercial paper notes totaling \$12,150,000 which previously redeemed certain Bonds outstanding. The Residential Mortgage Revenue Refunding Bonds 1999 Series D refunded all outstanding GNMA Collateralized Home Mortgage Revenue Bonds 1989 Series A and B. The Residential Mortgage Revenue Bonds 1999 Series B-2 were interim rate bonds that were refunded by the Residential Mortgage Revenue Refunding Bonds 2000 Series A.
- (4) The Residential Mortgage Revenue Bonds 2000 Series B and the Residential Mortgage Revenue Bonds 2000 Series E provided lendable proceeds for the purchase of mortgage-backed, pass-through certificates. The Residential Mortgage Revenue Refunding Bonds 2000 Series C and 2000 Series D refunded certain commercial paper notes totaling \$13,675,000 and \$18,265,000, respectively, which previously redeemed certain Bonds outstanding.

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

<u>Loan Type</u>	<u>Prior Mortgage Loans</u>	<u>Principal Amount</u>	<u>Total Mortgage Loans</u>
FHA Mortgage Loans	130	\$ 5,137,206	2.60%
GNMA Mortgage Certificates	<u>4,861</u>	<u>278,184,196</u>	<u>97.40%</u>
Total	4,991	\$ 283,321,402	100.00%

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

Mortgage Certificate Loans

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Percent of Total No. of Loans</u>
30 days	187	3.85%
60 days	41	0.84%
<u>90 days +</u>	<u>23</u>	<u>0.47%</u>
Total	251	5.16%

Mortgage Loans

<u>Duration of Delinquency</u>	<u>Number of Delinquent Loans</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total No. of Loans</u>
30 days	9	\$ 426,578	6.92%
60 days	1	43,951	0.77%
<u>90 days +</u>	<u>1</u>	<u>43,969</u>	<u>0.77%</u>
Total	11	\$ 514,498	8.46%

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

Mortgage Certificate Loans

<u>Servicers</u>	<u>Percent of Total Loans</u>
Mitchell Mortgage Company	36.99%
Texas Star Mortgage	31.62%
Countrywide Mortgage	25.14%
First Nationwide Mortgage	<u>6.25%</u>
Total	100.00%

Mortgage Loans

Servicers	Percent of Total Loans
Temple-Inland Mortgage Company	40.00%
Meritech Mortgage Services, Inc.	32.31%
Mitchell Mortgage Company	13.08%
First Horizon Home Loan Corp.	6.15%
First Nationwide Mortgage	3.85%
Other	4.61%
Total	100.00%

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

Reserve Fund Balance

Bond Series	Mortgage Reserve		Debt Service Reserve	
	Par Value	Average	Par Value	Average
	Fund Balances	Investment	Fund Balances	Investment
	Actual	Rate	Actual	Rate
1988A (4)	484,517	7.304	870,789	7.304
1989 A&B (4)	100,378	7.928	267,674	7.928
1999 A	-		441,507	8.336
Total	\$ 584,895		\$ 1,579,970	

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

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

Self Insurance Fund Balance

Bond Series	Actual Dollar Funded	Required per Rating Agency
1999A	\$ 450,992	\$ 450,992

Part II: Other Information

Mortgage Loan Information Management System

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

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

APPENDIX F-2

OTHER INDEBTEDNESS OF THE DEPARTMENT

Other Indebtedness of The Department

General-Single Family. Since 1979, the year of creation of the Texas Housing Agency (the "Agency"), a predecessor to the Department, there have been issued by the Agency or the Department, nineteen series of Residential Mortgage Revenue Bonds, twenty-seven series of Single Family Mortgage Revenue Bonds, two series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, ten series of Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds), eleven series of Collateralized Home Mortgage Revenue Bonds, and two series of Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds. As of March 31, 2001, the outstanding principal amount of bonded indebtedness of the Department for single family housing purpose was \$1,061,800,687.

General-Multifamily. The Department and the Agency have issued eighty eight multifamily housing revenue bonds which have been issued pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of March 31, 2001, forty nine series were outstanding with an aggregate outstanding principal amount of bond indebtedness of the Department for multifamily housing purpose was \$355,273,414.

The Residential Mortgage Revenue and Refunding Bonds. As of March 31, 2001, the Department has issued nineteen series of Residential Mortgage Revenue and Refunding Bonds (the "RMRBs") pursuant to the Residential Mortgage Revenue Bond Trust Indenture and nineteen separate Series Supplements (collectively the "RMRB Indenture"), and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of March 31, 2001, fourteen series were outstanding with an aggregate outstanding principal amount of \$435,680,000 of Residential Mortgage Revenue and Refunding Bonds. For information concerning the portfolio of mortgage loans acquired with the Residential Mortgage Revenue Bonds, see "APPENDIX F-1 – ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue and Refunding Bonds. The Department has issued twenty-seven series of Single Family Mortgage Revenue and Refunding Bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, and thirty-one indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of March 31, 2001, fourteen series were outstanding with an aggregate outstanding principal amount totaling \$425,805,000 of the Single Family Mortgage Revenue and Refunding Bonds.

Junior Lien Single Family Mortgage Revenue Refunding Bonds. The Department has issued two series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, by and between the Department and Bank One, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the Single Family Indenture. As of March 31, 2001, one series was outstanding with an aggregate outstanding principal of \$13,970,687 of the Junior Lien Single Family Mortgage Revenue Refunding Bonds.

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

The Department has issued five series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1993 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1993, amended as of February 1, 1995 by and between the Department and Bank One, Texas, NA. As of March 31, 2001, five series were outstanding with an aggregate outstanding principal amount of \$33,080,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

The Department has issued three series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1994 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture dated as of November 1, 1994, supplemented by a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of November 1, 1994, as amended as of February 1, 1995, by and between the Department and Bank One, Texas, N.A. As of March 31, 2001, three series were outstanding with an aggregate outstanding principal amount of \$60,805,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program).

Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued two series of its Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1995A and Series 1995B for the purpose of refunding certain notes which previously refunded certain Bonds outstanding, under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture and a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture and Second Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, each dated as of November 1, 1994, each amended as of February 1, 1995, and each by and between the Department and Bank One, Texas, NA, as Trustee. As of March 31, 2001, one series was outstanding with an aggregate outstanding principal amount of \$1,575,000 of the Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program).

Collateralized Home Mortgage Revenue Bonds. The Department has issued eleven series of Collateralized Home Mortgage Revenue Bonds pursuant to the Collateralized Home Mortgage Revenue Bond Master Indenture and six separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of March 31, 2001, five series were outstanding with an aggregate outstanding principal amount of \$90,885,000 of Collateralized Home Mortgage Revenue Bonds.

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

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

APPENDIX G

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

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

Area	50% of AMFI	60% of +AMFI (^)	80% of ++AMFI (^)	100% of AMFI*	115% of AMFI**	120% of AMFI***	140% of AMFI**
Austin-San Marcos Metro (1)	\$32,500	\$38,820	\$51,760	\$64,700	\$74,405	\$77,640	\$90,580
Brazoria Metro (2)	\$28,550	\$34,260	\$45,680	\$57,100	\$65,665	\$68,520	\$79,940
Dallas Metro (3)	\$32,200	\$38,640	\$51,520	\$64,400	\$74,060	\$77,280	\$90,160
Fort Worth - Arlington Metro (4)	\$30,050	\$36,060	\$48,080	\$60,100	\$69,115	\$72,120	\$84,140
Galveston - Texas City Metro (5)	\$26,250	\$31,500	\$42,000	\$52,500	\$60,375	\$63,000	\$73,500
Houston Metro (6)	\$29,250	\$35,100	\$46,800	\$58,500	\$67,275	\$70,200	\$81,900
Carson County	\$26,000	\$31,200	\$41,600	\$52,000	\$59,800	\$62,400	\$72,800
Delta County	\$26,150	\$31,380	\$41,840	\$52,300	\$60,145	\$62,760	\$73,220
Hemphill County	\$25,850	\$31,020	\$41,360	\$51,700	\$59,455	\$62,040	\$72,380
Kendall County	\$30,800	\$36,960	\$49,280	\$61,600	\$70,840	\$73,920	\$86,240
Balance of State	\$25,100	\$30,120	\$40,160	\$50,200	\$57,730	\$60,240	\$70,280

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

(^) For use in monitoring compliance with Chapter 2306, Texas Government Code, with respect to loans made to families of low income (80% of AMFI) and families of very-low income (60% of AMFI).
 Note: The Department has determined that there is no "high housing costs area" within the State.

NON-ASSISTED MORTGAGE LOANS

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

ASSISTED MORTGAGE LOANS

- + Non-Targeted Area
- ++ Targeted Area

Updated: May 1, 2001

AVERAGE AREA PURCHASE PRICES

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

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

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

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

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

APPENDIX B

**FORM OF PROPOSED OPINION OF BOND COUNSEL
FOR SERIES 2001 D/E BONDS**

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
ONE AMERICAN CENTER
SUITE 2700
600 CONGRESS AVENUE
AUSTIN, TEXAS 78701-3200
TELEPHONE (512) 495-8400
FAX (512) 495-8612

October __, 2001

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Residential Mortgage Revenue Bonds, in two series to be known as (i) its Residential Mortgage Revenue Bonds, Series 2001D (the "Series 2001D Bonds") and (ii) its Residential Mortgage Revenue bonds, Series 2001E (the "Series 2001E Bonds") (collectively, the "Series 2001 D/E Bonds"). The initially issued Series 2001D Bonds shall bear interest from October 1, 2001 and the initially issued Series 2001E Bonds shall bear interest from the date of initial issuance and delivery. Interest on the Series 2001 D/E Bonds is payable July 1, 2002, and semiannually thereafter on each January 1 and July 1 until maturity or prior redemption. The Series 2001 D/E Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2001 D/E Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to mandatory, optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE SERIES 2001 D/E BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on August 21, 2001 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1987, between the Department and Bank One, National Association, as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "RMRB Indenture"), a Twenty-Third Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001 (the "Twenty-Third Series Supplement") relating to the Series 2001D Bonds, and a Twenty-Fourth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of October 1, 2001 (the "Twenty-Fourth Series Supplement") relating to the Series 2001E Bonds (the Twenty-Third Series Supplement and the Twenty-Fourth Series Supplement shall be referred to collectively as the "Supplemental Indentures"). The RMRB Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series 2001D Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans and paying a portion of the costs of issuance of the Series 2001 D/E Bonds. The Series 2001E Bonds are being issued for the purpose of providing funds to make and acquire Mortgage Loans. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

THE INDENTURE PERMITS the issuance of additional bonds on a parity with the Series 2001 D/E Bonds upon the terms and conditions set forth in the Indenture. The Department reserves the right in the Indenture to issue bonds payable from the pledges and assignments in trust pursuant to the Indenture that are junior or subordinate to the Series 2001 D/E Bonds, all as provided in the Indenture.

THE SCOPE OF OUR ENGAGEMENT AS BOND COUNSEL extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Series 2001 D/E Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2001 D/E Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statements or other offering materials relating to the Series 2001 D/E Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statements). 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 2001 D/E Bonds, including certain certified and original proceedings of the

Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond No. TR-1 of each series of the Series 2001 D/E Bonds.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Series 2001 D/E Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Series 2001 D/E Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Texas Housing Agency's Residential Mortgage Revenue Bonds Series 1989A and Residential Mortgage Revenue Bonds, Series 1989B, and the Department's Residential Mortgage Revenue Bonds, Series 1998A, Residential Mortgage Revenue Refunding Bonds, Series 1998B, Residential Mortgage Revenue Refunding Bonds, Series 1999A, Residential Mortgage Revenue Bonds, Series 1999B, Residential Mortgage Revenue Refunding Bonds, Series 1999C, Residential Mortgage Revenue Refunding Bonds, Series 1999D, Residential Mortgage Revenue Refunding Bonds, Series 2000A, Residential Mortgage Revenue Bonds, Series 2000B, Residential Mortgage Revenue Refunding Bonds, Series 2000C, Residential Mortgage Revenue Refunding Bonds, Series 2000D and Residential Mortgage Revenue Bonds, Taxable Series 2000E, all issued under the RMRB Indenture, the Residential Mortgage Revenue Bonds, Series 2001A, Residential Mortgage Revenue Refunding Bonds, Series 2001B and Residential Mortgage Revenue Refunding Bonds, Series 2001C being delivered by the Department concurrently with the delivery of the Series 2001 D/E Bonds.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2001 D/E Bonds. The authorized officers of the Department have duly executed the Series 2001 D/E Bonds and the Trustee has duly authenticated the Series 2001 D/E Bonds, to the extent required by the Indenture, and delivered the Series 2001 D/E Bonds to the initial purchasers thereof. The Series 2001 D/E Bonds constitute legal, valid and binding limited obligations of the Department and are entitled to the benefit and security of the Indenture. The form and execution of the executed Series 2001 D/E Bonds that we have examined are regular and proper.

4. The Series 2001 D/E Bonds are issued pursuant to the provisions of the Act and constitute limited obligations of the Department and are payable solely from the revenues, funds and assets of the Department pledged under the Indenture and not from any other revenues, funds or assets of the Department. The Series 2001 D/E Bonds are not and do not create or constitute in any way an obligation, a debt or a liability of the State, or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State. The Department has no taxing power.

5. The enforceability of certain provisions of the Series 2001 D/E Bonds, the Bond Resolution and the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors. Furthermore, the availability of equitable remedies under the Series 2001 D/E Bonds, the Bond Resolution and the Indenture may be limited by general principles of equity that permit the exercise of judicial discretion.

6. Interest on the Series 2001 D/E Bonds is excludable from gross income for federal income tax purposes under existing law.

7. Interest on the Series 2001 D/E Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of calculating the federal alternative minimum tax on individuals and corporations under existing law.

IN PROVIDING THE OPINIONS set forth in paragraphs 6 and 7 above with respect to the Series 2001 D/E Bonds, we have relied on representations of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, with respect to matters solely within the knowledge of the Department, the Underwriters, the Servicer, and the Mortgage Lenders, respectively, which we have not independently verified, and have assumed continuing compliance with the procedures, safeguards and covenants in the Indenture and other documents relating to the requirements of the Internal Revenue Code of 1986, as amended. We have further relied on the report (the "Report") of Causey Demgen & Moore, Inc., certified public accountants, regarding the mathematical accuracy of certain computations. In the event that any of such representations or the Report is determined to be inaccurate or incomplete or the Department, a Mortgage Lender, or the Servicer fails to comply with the foregoing procedures, safeguards and covenants in the Indenture, interest on the Series 2001 D/E Bonds could become includable in gross income for federal income tax purposes under existing law from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

EXCEPT AS STATED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Series 2001 D/E Bonds.

HOLDERS OF THE SERIES 2001 D/E Bonds should also be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits" tax on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2001 D/E Bonds.

THE OPINIONS SET FORTH ABOVE are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2001 D/E Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Department as the taxpayer. We observe that the Department has covenanted in the Supplemental Indentures not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2001 D/E Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

(THIS PAGE INTENTIONALLY LEFT BLANK)

