

OFFICIAL STATEMENT DATED AUGUST 28, 2020

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
S&P: "AA+"
Moody's: "Aa1"
(See "RATINGS" herein)

The Department has taken no action to cause any interest on the Series 2020 Bonds to be excludable from gross income for the purposes of federal income taxation and therefore it is assumed that interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein.

\$30,000,000
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Junior Lien
Single Family
Revenue and Refunding Bonds,
Taxable Series 2020

Dated Date/ Delivery Date: September 16, 2020

Due: As shown on the inside cover.

Interest Payment Dates: Interest accrued on the Series 2020 Bonds will be payable on March 1 and September 1, commencing March 1, 2021 as described herein.

Interest Rates: Payable at the rates as shown on the inside cover.

Redemption: The Series 2020 Bonds are subject to redemption on the dates and at the redemption prices more fully described herein. See "THE SERIES 2020 BONDS – Redemption Provisions."

Denominations: Series 2020 Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof as described herein.

Tax Matters: Interest on the Series 2020 Bonds is not intended to be excludable from gross income for federal tax purposes under existing law (See "Tax Matters" herein).

Purpose: The Series 2020 Bonds are being issued for the primary purpose of (i) making and acquiring second lien mortgage loans, (ii) refunding the Department's Series 2018 Issuer Notes (the "Issuer Notes") and (iii) paying costs of issuance. The Obligations (as defined herein), including the Series 2020 Bonds, are subordinate to Senior Lien Bonds (as defined herein). See "SECURITY FOR THE BONDS" and "APPENDIX E – SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE."

Security: The Series 2020 Bonds and, unless subordinated, all Obligations (as defined herein) subsequently issued under the Junior Lien Trust Indenture (as defined herein) are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Junior Lien Trust Indenture. The Series 2020 Bonds are limited obligations of the Department and are payable solely from the revenues and funds pledged for the payment thereof as more fully described herein. Neither the State of Texas (the "State") nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, including Ginnie Mae, Freddie Mac, and Fannie Mae, is obligated to pay the principal or redemption price of or interest on the Series 2020 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. See "SECURITY FOR THE BONDS" and "APPENDIX E – SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND THE JUNIOR LIEN TRUST INDENTURE."

Book-Entry Only System: The Series 2020 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). See "APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – DTC and Book-Entry."

Trustee: The Bank of New York Mellon Trust Company, N.A.

Bond Counsel: Bracewell LLP

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P.

Underwriter Counsel: Chapman and Cutler LLP

Financial Advisor: Stifel, Nicolaus & Co., Inc.

Jefferies

MATURITY SCHEDULE

\$30,000,000 Series 2020 Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
9/1/2030 ***	\$15,000,000 ***	2.040% ***	100% ***	88275FSJ9
9/1/2045	15,000,000	2.997%	100%	88275FSK6

(Interest Accrues from Date of Delivery)

This Official Statement does not constitute, and is not to be used in connection with, an offer to sell or the solicitation of an offer to buy the Series 2020 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

Many statements contained in this Official Statement, including the appendices and the documents included by specific cross-reference, that are not historical facts are forward-looking statements, which are based on the Department's beliefs, as well as assumptions made by, and information currently available to, the management and staff of the Department. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. The words "anticipate," "assume," "estimate," "expect," "objective," "projection," "plan," "forecast," "goal," "budget" or similar words are intended to identify forward-looking statements. The words or phrases "to date," "now," "currently," and the like are intended to mean as of the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2020 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH ARE INTENDED TO STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2020 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING EFFORTS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2020 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED HEREIN, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The Series 2020 Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Junior Lien Trust Indenture or any other document been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. Any registration or qualification of the Series 2020 Bonds in accordance with applicable provisions of the securities laws or the states in which the Series 2020 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2020 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT

Relating to

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

**\$30,000,000
Junior Lien
Single Family
Revenue and Refunding Bonds
Taxable Series 2020**

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 \$30,000,000 Junior Lien Single Family Revenue and Refunding Bonds, Taxable Series 2020 (the "Series 2020 Bonds"). Terms used but not otherwise defined herein shall have the respective meanings set forth in "APPENDIX A – GLOSSARY."

The Department, a public and official governmental agency of the State of Texas (the "State"), was created and organized pursuant to and in accordance with the provisions of the Chapter 2306, Texas Government Code, as amended (together with other laws of the State applicable to the Department, collectively, the "Act"), for the purpose of, among other things, financing sanitary, decent and safe housing for individuals and families of low and very low income and families of moderate income. 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 Department or certain other quasi-governmental issuers. See "THE DEPARTMENT."

The Series 2020 Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on July 23, 2020, the Junior Lien Trust Indenture (as hereafter defined) and a Sixth Supplemental Junior Lien Trust Indenture (Series Supplement 2020), dated as of September 1, 2020 (the "Sixth Supplement"), between the Department and the Trustee. All obligations issued pursuant to the Junior Lien Trust Indenture, including the Series 2020 Bonds and any additional obligations, are collectively referred to herein as the "Obligations." All Obligations issued pursuant to the Junior Lien Trust Indenture are and will be equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Junior Lien Trust Indenture; provided, however that the Department has reserved the right to issue obligations under the Junior Lien Trust Indenture that are subordinated in the right of repayment to the Obligations. See "SECURITY FOR THE SERIES 2020 BONDS."

The Department has previously issued multiple series of its Single Family Mortgage Revenue Bonds (the "Senior Lien Bonds") pursuant to the Amended and Restated Single Family Mortgage Revenue Bond Trust Indenture dated as of June 1, 2017 (as supplemented and amended, the "Senior Lien Trust Indenture"), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Senior Lien Indenture Trustee"). Pursuant to the Senior Lien Trust Indenture, the Department is authorized to (i) issue Senior Lien Bonds, among other things, to (A) acquire, and enter into advance commitments to acquire, mortgage loans ("Senior Lien Mortgage Loans") secured by mortgages on residential housing and (B) purchase mortgage-backed securities (the "Mortgage Certificates") that are backed by Senior Lien Mortgage Loans and guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and (ii) pledge all or any part of the revenues, receipts or resources

of the Department, including the revenues and receipts to be received by the Department from such Senior Lien Mortgage Loans and Mortgage Certificates, and to pledge or grant security interests in such Senior Lien Mortgage Loans and Mortgage Certificates or other property of the Department, to secure the payment of the Senior Lien Bonds. See "APPENDIX B-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE CERTIFICATES." In addition to the Senior Lien Bonds, the Department has also previously issued Obligations (as defined herein), none of which remain outstanding, pursuant to an Amended and Restated Junior Lien Trust Indenture, dated as of August 1, 2020 (the "Master Indenture"), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee, (together with its successors in such capacity, the "Trustee"). The Master Indenture, as amended and supplemented from time to time, is referred to herein as the "Junior Lien Trust Indenture". The Series 2020 Bonds and any Obligations subsequently issued pursuant to the Junior Lien Trust Indenture are payable solely from the Revenues and Funds pledged for the payment thereof as more fully described herein on a basis that is junior and subordinate to the pledge securing the Department's Senior Lien Bonds.

The Series 2020 Bonds are being issued for the primary purpose of (i) making and acquiring second lien mortgage loans, (ii) refunding the Department's Series 2018 Notes (the "Issuer Notes") and (iii) paying costs of issuance. The Obligations including the Series 2020 Bonds, are subordinate to Senior Lien Bonds.

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

Monies under the Senior Lien Trust Indenture only become Surplus Revenues available to be released to pay debt service on the Obligations to the extent such revenues are in excess of all current debt service obligations on the Senior Lien Bonds issued thereunder, including Swap Agreement Periodic Payments, and all expenses of the Department in administering the programs related to the Senior Lien Bonds. In addition, prior to each release the Department must demonstrate that projected revenues under the Senior Lien Trust Indenture will be sufficient to pay debt service on the Senior Lien Bonds and expenses of the Department in the then current and each succeeding Bond Year and that the assets held under the Senior Lien Trust Indenture are at least equal to one hundred (100%) of the aggregate principal amount of the Senior Lien Bonds outstanding under the Senior Lien Trust Indenture. See "SECURITY FOR THE SERIES 2020 BONDS."

THE SERIES 2020 BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GINNIE MAE, FREDDIE MAC AND FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2020 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER.

There follows in this Official Statement, among other things, a brief description of the Department and its activities, together with summaries of the terms of the Series 2020 Bonds, the Junior Lien Trust Indenture, the Senior Lien Trust Indenture and certain provisions of the Act. All references herein to the Act, the Senior Lien Trust Indenture, the Junior Lien Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 2020 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Junior Lien Trust Indenture.

PLAN OF FINANCE

The proceeds of the Series 2020 Bonds will be used to (i) make and acquire second lien mortgage loans, (ii) refund the Issuer Notes and (iii) pay costs of issuance.

<u>SOURCES OF FUNDS</u>	
Bond Proceeds	\$30,000,000
TOTAL	\$30,000,000
<u>USES OF FUNDS</u>	
Payment of Issuer Notes*	\$12,000,000
Second Lien Mortgage Loans	\$17,390,986
Underwriter Compensation	\$247,514
Costs of Issuance	\$361,500
TOTAL	\$30,000,000

* Interest to the redemption date will be paid from amounts on deposit in the surplus revenue account of the Senior Lien Trust Indenture.

THE SERIES 2020 BONDS

General

The Series 2020 Bonds will be dated the date of delivery and will mature, subject to prior redemption as described below, on the dates set forth on the inside cover page hereof. The Series 2020 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 2020 Bonds. The Series 2020 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 2020 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 2020 Bonds or their nominees. See "APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – DTC and Book-Entry."

Interest Rates

The Series 2020 Bonds will accrue interest from the date of delivery, until maturity or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest accrued on the Series 2020 Bonds will be payable on March 1, 2021, and semiannually on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Series 2020 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Redemption Provisions

The Series 2020 Bonds are subject to optional redemption at various times, and prior to their scheduled maturity at various redemption prices, as described below.

Optional Redemption at Par

The Series 2020 Bonds with a stated maturity of September 1, 2045 are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after September 1, 2030 (the "Par Call Date"), at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds to be redeemed, plus accrued interest, if any, to the date of redemption.

Optional Redemption at Make-Whole Redemption Price

The Series 2020 Bonds are subject to optional redemption prior to maturity, in whole or in part, at any time and from time to time prior to the Par Call Date, at a redemption price equal to the Make-Whole Redemption Price (as defined below). The Department will retain an independent certified public accountant or an independent municipal advisor to determine the Make-Whole Redemption Price and perform all actions and make all calculations required to determine the Make-Whole Redemption Price. The Trustee may conclusively rely on such independent certified public accountant's or independent municipal advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Department nor the Trustee will have any liability for such reliance. The determination of the Make-Whole Redemption Price by such independent certified public accountant or independent municipal advisor will be conclusive and binding on the Department, the Trustee and the Owners of the Series 2020 Bonds absent manifest error.

The "Make-Whole Redemption Price" means the greater of (1) 100% of the principal amount of the Series 2020 Bonds to be redeemed or (2) the sum of the present value of the remaining scheduled payments of principal of and interest to the maturity date of such Series 2020 Bonds to be redeemed, not including any portion of those payments of interest thereon accrued and unpaid as of the date on which the Series 2020 Bonds are to be redeemed, discounted to the date on which the Series 2020 Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 25 basis points, plus, in each case, accrued and unpaid interest on the Series 2020 Bonds to be redeemed to the date of redemption.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2020 Bond, the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 45 calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2020 Bond to be redeemed.

Selection of Bonds for Redemption

In the event of redemption of less than all of the Series 2020 Bonds, unless otherwise provided in a Letter of Instructions accompanied by a Cashflow Certificate, the Trustee shall select the particular Series 2020 Bonds of each maturity to be redeemed at random on a pro rata basis, and if less than all of the Series 2020 Bonds of the same maturity are called for redemption, the particular Series 2020 Bonds or portions thereof of such maturity to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its sole discretion may deem appropriate. For purposes of selecting Series 2020 Bonds for

redemption, Series 2020 Bonds shall be deemed to be composed of individual minimum Authorized Denominations and any such Authorized Denomination may be separately redeemed.

Notice of Redemption

Notice of any redemption will be delivered by the Trustee to DTC, not less than 30 days nor more than 60 days prior to the date set for redemption. DTC is responsible for notifying DTC Participants, and DTC Participants including Indirect Participants (hereinafter defined) are responsible for notifying Beneficial Owners (hereinafter defined). Neither the Trustee nor the Department is responsible for sending notices of redemption to Beneficial Owners. See "APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – DTC and Book-Entry."

Purchase in Lieu of Redemption

The Trustee, upon the written direction of the Department, shall apply monies held in the account related to the Series 2020 Bonds within the Special Redemption Fund to purchase Series 2020 Bonds on the open market in lieu of redemption so long as the purchase price (excluding accrued interest but including any brokerage and other charges) of any of such Series 2020 Bonds does not exceed one hundred percent (100%) of the principal amount of such Series 2020 Bonds. All Series 2020 Bonds so purchased must be canceled by the Trustee.

SECURITY FOR THE SERIES 2020 BONDS

Pledge of Junior Lien Trust Indenture

The Series 2020 Bonds and any additional Obligations issued under the Junior Lien Trust Indenture, unless subordinated, are equally and ratably secured by the Junior Lien Trust Indenture for the equal benefit, protection and security of the owners of the Obligations, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Junior Lien Trust Indenture.

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

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

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

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

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

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

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

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

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

During such time as the Department is not meeting the Junior Lien Asset Test, amounts in the Residual Revenues Fund must be retained in the Residual Revenues Fund or transferred to the Acquisition Fund or the Special Redemption Fund, as directed by a Letter of Instructions accompanied by a Cashflow Certificate or, in the absence of such instructions, as required by the Series Supplements applicable to the Obligations then Outstanding. If at any time the Department meets the Junior Lien Asset Test, then the Trustee must apply any amounts in the Residual Revenues Fund (in excess of those required to be maintained under

the Junior Lien Trust Indenture in order to permit the Department to continue to meet the Junior Lien Asset Test) as follows:

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

provided, however, that no such amounts may be applied in any way which would result in less than ninety percent (90%) of all amounts received by the Department with respect to the Mortgage Loans or the Department Loans being used for the following purposes: (a) to pay the principal or Redemption Price of or interest on or purchase price or otherwise to service the Obligations; (b) to reimburse the Department for Department Expenses, or to pay for Costs of Issuance; (c) to reimburse the Department, or to pay for administrative or other costs or anticipated future losses directly related to the Program; (d) to make, acquire or refinance Mortgage Loans, Department Loans or other loans or mortgages financing residential real property in the State; and (e) to redeem or retire other obligations of the Department. For a description of the Junior Lien Asset Test see APPENDIX E – SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE –The Junior Lien Trust Indenture – Residual Revenues Fund."

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

The Series 2020 Bonds are limited obligations of the Department and are payable solely from the Revenues and funds pledged for the payment thereof as more fully described herein. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, is obligated to pay the principal or redemption price of, or interest on, the Series 2020 Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power.

Certain Information as to Revenues, Debt Service and Department Expenses

On the basis of the Cashflow Statement (hereinafter defined) prepared in connection with the issuance of the Series 2020 Bonds, as discussed below, the Department expects that Surplus Revenues and amounts held under the Junior Lien Trust Indenture and the earnings thereon, will be sufficient to pay the principal amount or redemption price of and interest on the outstanding Obligations and the Series 2020 Bonds when due. In arriving at the foregoing conclusions, the Department has not considered the issuance of other additional Obligations, additional Senior Lien Bonds, or the application or investment of the proceeds thereof. Since Obligations issued under the Master Indenture will rank equally and ratably with the Series 2020 Bonds with respect to the security afforded by the Master Indenture and since Senior Lien Bonds rank in a higher priority than the Series 2020 Bonds, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Obligations or additional Senior Lien Bonds.

Cashflow Statement

The Department is required to deliver periodically a "Cashflow Statement" prepared or verified by a nationally recognized firm experienced in preparing mortgage revenue bond cashflows comparing estimates of Revenues with scheduled debt service requirements, Trustee Fees, Rebate Analyst Fees, Department Expenses, Administrative Fees and any other expenses with respect to Outstanding Obligations. Under the terms of the Master Indenture, such Cashflow Statements must incorporate certain assumptions concerning Mortgage Loan, Department Loan and Senior Lien Mortgage Loan prepayments, reinvestment rates, expenses and certain other assumptions as provided in the Master Indenture. A Cashflow Statement is required to be prepared, among other things, as a condition to the issuance of the Series 2020 Bonds, the issuance of any additional Obligations, and the taking of certain other actions permitted under the Junior Lien Trust Indenture.

The Department has covenanted in the Junior Lien Trust Indenture that it will make, acquire or sell Mortgage Loans, Department Loans and Senior Lien Mortgage Loans, or purchase or redeem Obligations, including the Series 2020 Bonds, or take certain other actions permitted under the Junior Lien Trust Indenture, only if such actions are in accordance with its most recent Cashflow Statement unless otherwise permitted in the applicable Series Supplement.

OUTSTANDING OBLIGATIONS, SENIOR LIEN BONDS AND MORTGAGE CERTIFICATES

No Other Outstanding Obligations

The Series 2020 Bonds will be the only Obligations outstanding under the Junior Lien Trust Indenture on the Issuance Date of the Series 2020 Bonds.

Senior Lien Bonds

As of May 31, 2020, \$560,131,238 in Senior Lien Bonds consisting of multiple series of Senior Lien Bonds were outstanding under the Senior Lien Trust Indenture. See "APPENDIX B-1 – ADDITIONAL INFORMATION CONCERNING MORTGAGE CERTIFICATES" and "APPENDIX B-2 – BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS."

BONDHOLDER RISKS

COVID-19

The outbreak of a new strain of coronavirus ("COVID-19"), an upper respiratory tract illness first identified in Wuhan, China, has spread to numerous countries across the globe, including the United States.

The World Health Organization has characterized COVID-19 as a pandemic. The worldwide outbreak of COVID-19 has caused significant disruptions to the world and United States economies.

As a result of the COVID-19 pandemic, the U.S. government, the State of Texas and Texas local governments have imposed restrictions on travel, public gatherings and large group events, ordered residents to stay at home, promoted work-at-home, and ordered closure of schools, restaurants, bars, and other public venues. The President of the United States has declared a state of emergency and the Governor of the State of Texas has declared a state of disaster as a result of the COVID-19 pandemic.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to address the crisis created by the COVID-19 pandemic. Direct aid to citizens was included among the relief measures in the CARES Act. Among other things, the CARES Act provides that (a) lenders are prohibited from foreclosing all mortgage loans which are FHA insured, VA, HUD or Rural Housing guaranteed, or purchased or securitized by Fannie Mae or Freddie Mac (collectively, "Federal Single Family Loans") for a period of 60-days commencing March 18, 2020, and (b) until the sooner of the termination of the pandemic or December 31, 2020, Federal Single Family Loan borrowers directly or indirectly facing economic difficulties as a result of the coronavirus can seek up to 360 days of payment forbearance. The CARES Act does not allow fees, penalties or additional interest to be charged as a result of delayed payments.

The CARES Act also directs the Federal Reserve Bank to provide liquidity to the financial system through a new facility to purchase certain new issuances of securities by eligible issuers, including housing finance agencies and other state and local governments. Such injection of liquidity follows recent actions by the Federal Reserve, including the purchase of U.S. Treasury securities and Ginnie Mae, Fannie Mae and Freddie Mac mortgage-backed securities, facilitating the flow of credit to municipalities by expanding its Money Market Mutual Fund Liquidity Facility to include a wider range of securities, including municipal variable rate demand notes (such as variable rate demand obligations of housing finance agencies).

Separately, Ginnie Mae has announced a program to assist Ginnie Mae seller/servicers which experience financial hardships in meeting their obligations to advance funds and/or repurchase loans due to the forbearance provisions of the CARES Act. Ginnie Mae stated it will implement a "pass-through assistance program" through which Ginnie Mae seller/servicers with payment shortfalls may request that Ginnie Mae advance (subject to Ginnie Mae approval) the difference between available funds and the scheduled payments to investors. Ginnie Mae stated that the program would apply initially to seller/services of single family loans and that it anticipated the program subsequently applying to multifamily loans, as well.

On March 29, 2020, President Trump extended the Coronavirus Guidelines for America, calling upon Americans to take actions to slow the spread of COVID-19 in the United States, through April 30, 2020. On March 31, 2020, the Governor of Texas issued additional executive orders that, among other items, extended his prior order closing schools for in-person classes through May 4, 2020. On April 17, 2020, the Governor issued several executive orders to begin the process of lifting certain restrictions related to COVID-19, including authorizing certain retail and healthcare facilities to open under certain guidelines; however, extended the temporary closure of in-person classes for the remainder of the 2019-20 school year. On July 2, 2020, the Governor updated Executive Order GA-28 regarding additional measures to slow the virus, and on July 9, 2020 the Governor issued a proclamation that, among other actions, suspended elective surgeries in additional counties.

The pandemic is an ongoing situation. At this time, the Department cannot determine the overall impact the pandemic, including the federal and State responses thereto, will have on its programs, the Trust Estate or the operations of the Department.

Risk of Non-Payment Due to Bank Bond Acceleration

The Department's ability to pay the debt service on Series 2020 Bonds may be negatively impacted by the inability to remarket variable rate Prior Senior Lien Bonds. As of May 31, 2020, variable rate Prior

Senior Lien Bonds comprised approximately 11% of the Department's bonded debt under the Senior Lien Trust Indenture. As of May 31, 2020, the Department has no unremarketed outstanding Bank Bonds. For purposes of this section, the term "Bank Bonds" means prior Senior Lien Bonds purchased by the Texas Comptroller of Public Accounts (the "Comptroller") as provider of the Prior Liquidity Facilities (as hereinafter defined). As Bank Bonds, the terms of such Bank Bonds have more onerous interest rates and/or principal repayment schedules.

In connection with all of the Department's variable rate prior Senior Lien Bonds, the Department has replaced the original liquidity facilities with liquidity facilities provided by the Comptroller (each, a "Prior Liquidity Facility"). Effective September 1, 2019, the Department extended the termination dates under the Prior Liquidity Facilities to August 31, 2021. There is no assurance that the Department will be able to secure substitute liquidity or further extend the prior liquidity facilities. Failure to do either may have an adverse effect on the ability of the Senior Lien Trust Indenture to generate revenues sufficient to pay principal of and interest on the Series 2020 Bonds.

Swap Basis Risk

In connection with the issuance of certain prior Senior Lien Bonds, the Department entered into the swap agreements. Pursuant to the swap agreements, the Department will pay the swap providers payments computed at a fixed rate based on notional amounts which correspond to the outstanding principal balances of the prior Senior Lien Bonds associated with the respective swap agreements, and the swap providers will pay the Department payments computed based on variable rate indices on the same notional amounts. The variable rate used under each of the swap agreements is based on specified percentages of LIBOR, which is intended to approximate the variable interest rate on the prior Senior Lien Bonds associated with the swap agreements. Unlike LIBOR, however, the interest on the prior Senior Lien Bonds associated with the swap agreements, is excludable from gross income for federal income tax purposes; therefore, one of the primary determinants of any changes to the relationship between the variable rate index used under the swap agreements and the interest rates on the Senior Lien Bonds associated with the swap agreements is expected to include, among other factors, any changes to the top marginal rate of federal income taxation. Payments to the Department under the swap agreements may exceed, equal or be less than the Department's interest obligation on the Senior Lien Bonds associated with the swap agreements. Regardless of the amount of moneys received under the swap agreements, the Department is obligated to make interest payments on variable rate Senior Lien Bonds at rates that are determined by the respective remarketing agents. Any mismatch between prior Senior Lien Bonds interest payments associated with the swap agreements and the payments due under the swap agreements could cause financial losses under the Senior Lien Trust Indenture. See "APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – Prior Swap Agreements" and Note 5 of "AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS REVENUE BOND PROGRAM FOR THE FISCAL YEAR ENDED AUGUST 31, 2019" as incorporated by reference. See "FINANCIAL STATEMENTS."

Swap Termination Risk

Under certain circumstances, including certain events of default with respect to the Department or the swap providers, the swap agreements may be terminated in whole or in part prior to maturity. Following termination, if any, of the swap agreements, under certain market conditions, the Department could owe a termination payment to the respective swap providers which could be substantial. Such termination payment will be payable from amounts pledged under the Senior Lien Trust Indenture, subject and subordinate to (i) the payment or provision of arbitrage rebate; (ii) expenses and compensation of the Trustee; (iii) the payment of principal and interest on all Senior Lien Bonds and Obligations, if any, the payment of regularly scheduled payments under the swap agreements; and (iv) required replenishment of the Debt Service Reserve Fund, if any. A bond insurer has issued a swap insurance policy insuring the scheduled fixed payments from the Department for the swap agreement pertaining to the Department's Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B. The Department's obligation to reimburse the bond insurer, if any, and to pay any swap provider that is owed a termination payment is subordinate to scheduled payment of principal of and interest on all Senior Lien Bonds and Obligations, if

any, the payment of regularly scheduled payments under the swap agreements, and any required replenishment of the Debt Service Reserve Fund.

As of May 31, 2020, the Department estimates that the aggregate termination payments that would have been owed by the Department to the swap providers were the swap agreements terminated as of such date is approximately \$5,900,000; however such estimate is by no means incontrovertible as the actual termination payment, were the swap agreements to be terminated, would likely be subject to different valuations from the swap providers. For more detailed information concerning "fair value" estimations for each Prior Swap Agreement see " APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – Prior Swap Agreements" and Note 5 of "AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS REVENUE BOND PROGRAM FOR THE FISCAL YEAR ENDED AUGUST 31, 2019" as incorporated by reference. See "FINANCIAL STATEMENTS."

Availability of Remedies

The remedies available to the owners of the Series 2020 Bonds upon an Event of Default under the Junior Lien Trust Indenture or other documents described herein are in certain 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 and the Junior Lien Trust Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds will, therefore, 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, and by principles of sovereign immunity.

THE DEPARTMENT

General

The Department, a public and official agency of the State of Texas (the "State") was created pursuant to and in accordance with Chapter 2306, Texas Government Code, as amended from time to time (together with other laws of the State applicable to the Department, the "Act"). One of the purposes of the Department is to provide for the housing needs of individuals and families of low, very low and extremely low income and families of moderate income in the State. Pursuant to the Act, the Department may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Department or certain other quasi-governmental issuers.

The Department is subject to the Texas Sunset Act (Chapter 325, Texas Government Code, as amended, hereinafter referred to as the "Sunset Act") and its continued existence is subject to a review process that resulted in passage of legislation in the Seventy-Eighth Legislative Session in 2003 which continued the Department in existence until September 1, 2011. House Bill 3361 extended the existence of the Department until September 2025, at which time it will be subject to review. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished under the provisions thereof and provides that the Governor of the State shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

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

Governing Board

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

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

One seat on the Board is currently vacant and two other Board members have resigned. J.B. Goodwin conducted his last meeting as Chair on December 12, 2019 and Asusena Resendiz has resigned resulting in another vacant seat. The remaining members of the Board, their occupations and their terms of office are as follows:

LESLIE BINGHAM, Vice Chair and Board Member. Chief Executive Officer of Valley Baptist Medical Center-Brownsville, Brownsville, Texas. Her term expires January 31, 2019.

PAUL A. BRADEN, Board Member. Partner and Head of Public Finance for the United States at Norton Rose Fulbright, Dallas, Texas. His term expires January 31, 2023.

SHARON THOMASON, Board Member. President of S Arthur Services, Lubbock, Texas. Her term expires January 31, 2021.

LEO VASQUEZ, Board Member. Executive Vice President of Cadeco Industries, Houston, Texas. His term expires January 31, 2023.

All of the above Board members have been appointed by the Governor and confirmed by the State Senate. Any Board member whose term has expired or who has tendered his or her resignation continues to serve until his or her successor has been appointed.

Administrative Personnel

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

Currently, the Department has 295 employees. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family housing matters.

ROBERT WILKINSON, Executive Director. Mr. Wilkinson was hired by the Governing Board to serve as the Executive Director at the Board meeting of July 25, 2019, and he began his tenure on August 15, 2019. Most recently, Mr. Wilkinson served as the Deputy Budget Director to Texas Governor Greg Abbott. Mr. Wilkinson served in the Budget and Policy Division within the Office of the Governor for the first three legislative sessions of Governor Abbott's administration; 2015, 2017, and 2019. His duties included the development of the Governor's proposed budgets, the analysis and tracking hundreds of filed bills including the General Appropriations Act, the development of policy, and the coordination of governance with executive state agencies. Housing and TDHCA were important elements of Mr. Wilkinson's portfolio of responsibility from 2014 (under former Governor Rick Perry) through 2019. Before 2014, Mr. Wilkinson held other positions within the Office of the Governor and worked in the private sector in various capacities including a stint as a project manager at a large commercial electrical contractor. Mr. Wilkinson received his Bachelor of Arts from the University of Texas at Austin.

MONICA GALUSKI, Director of Bond Finance and Chief Investment Officer. Ms. Galuski joined the Department in 2014. She has 20 years of experience in municipal housing finance in both the public and private sectors. Ms. Galuski oversees the Department's TBA program, single family bond program, multifamily bond program, and homeownership activities. Ms. Galuski received a Bachelor of Science in Financial Management from Arizona State University.

CATHY GUTIERREZ, Director of the Texas Homeownership Division. Cathy began her career at the Texas Department of Housing and Community Affairs in 1992. Her first position was with the Finance and Accounting Division in Loan Administration and progressed through several positions in the Community Affairs, Housing Finance, and HOME Divisions. In 2003 she joined the Texas Homeownership Division. During her 12 year tenure in the Division, Cathy served as the Business Development Officer and Program Manager, assisting in new program structure, marketing, lender and Realtor trainings, business development, lender participation process, and consumer related inquires. In April 2015, Cathy became the Director of the Texas Homeownership Division. She is responsible for the development and administration of the Single Family Homeownership and Mortgage Credit Certificate programs.

JAMES "BEAU" ECCLES, General Counsel. J. Beau Eccles joined the Department in June 2015 as its General Counsel and is responsible for coordination of all internal and external legal counsel for the Department. Before joining the Department, Mr. Eccles served as an Assistant Texas Attorney General for thirteen years, including five years as Deputy Chief, then two years as Chief, of the General Litigation Division. Mr. Eccles is a graduate of the Texas Tech School of Law, and received his B.A. from the University of Texas at Austin.

TAX MATTERS

Under existing law, interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes. Investors should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series 2020 Bonds, including the application and effect of federal, state, local, foreign and other tax laws.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of September 1, 2020 (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 2020 Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 2020 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 events, to the Municipal Securities Rulemaking Board (the "MSRB").

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 (the "Rule")) for whom financial information or operating data would be presented in this Official Statement had such Eligible Borrower been known at the time of the offering of the Series 2020 Bonds.

The Department's Bond Finance Division has policies and procedures in place to assist the Department in complying with continuing disclosure undertakings such as the Disclosure Agreement. The Department's policies and procedures have been amended in response to the two new notice events added, effective February 27, 2019, to the list of events for which notice is required by the Rule. See "—Event Notices."

Annual Reports

The Department will provide certain updated financial information and operating data to the MSRB annually within six months after the end of its Fiscal Year. 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 in "APPENDIX B-1 – ADDITIONAL INFORMATION CONCERNING MORTGAGE CERTIFICATES" and "APPENDIX B-2 – BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS" and the annual financial statements of the Texas Department of Housing and Community Affairs – Revenue Bond Enterprise Fund for the Fiscal Year ended August 31, 2020 and for each subsequent Fiscal Year (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). The Department will update and provide this information within six months after the end of each Fiscal Year ending on or after August 31, 2020. The Department will provide the updated information to the MSRB.

The Department may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. 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 under "FINANCIAL STATEMENTS" or such other accounting principles as the Department may be required to employ from time to time pursuant to state law or regulation.

The Department's current Fiscal Year ends on August 31, 2020. Accordingly, it will provide updated information to the MSRB in the electronic format prescribed by the MSRB, if any, by the last day of February in the year 2021 and will be required to provide updated information to the MSRB by the last day of February in each year thereafter, unless the Department changes its Fiscal Year. If the Department changes its Fiscal Year, it will notify the MSRB of the change.

The Department determined in 2017 that the annual disclosure of information regarding the Residential Mortgage Revenue Bond Program ("RMRB Program") would no longer include certain annual information since the RMRB Program has no whole mortgage loans and over 99% of the mortgage-backed certificates are Ginnie Mae Certificates. As such, information related to: (i) whole mortgage loans and (ii) mortgage-backed certificate type and delinquency data are immaterial to the current RMRB Program and were and will be omitted in its annual disclosure. Based on the changing make-up of the pledged assets under the Department's various indentures, the Department will determine materiality of disclosure items and may modify its disclosure accordingly in the future.

Event Notices

The Department will provide notice to the MSRB of any of the following events with respect to the Series 2020 Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of securities holders; (3) Series 2020 Bond calls, if material, and tender offers; (4) release, substitution, or sale of property securing repayment of the Series 2020 Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person

or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; (6) appointment of a successor or additional trustee or the change of name of a trustee; and (7) incurrence of a financial obligation of the Department, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Department, any of which affect security holders.

The Department will also provide notice to the MSRB of any of the following events with respect to the Series 2020 Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) defeasances; (6) rating changes; and (7) bankruptcy, insolvency, receivership or similar event of an obligated person; and (8) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Department, any of which reflect financial difficulties.

For the purposes of the above described event notices, the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule. The Department intends the words used in (7) in the first paragraph of this subcaption and item (8) immediately above and the definition of "financial obligation" to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The Department will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The Department will also provide timely notice of any failure by the Department to provide annual financial information in accordance with their agreement described above under "Annual Reports."

Availability of Information from MSRB

The Department has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of Series 2020 Bonds only if the holders comply with the procedures and pay any charges that may be established by the MSRB such information vendors or obtain the information through securities brokers who do so. Such information is available at no charge at www.emma.msrb.org.

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 2020 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 2020 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 2020 Bonds in the primary offering of the Series 2020 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 2020 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 2020 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 2020 Bonds in the primary offering of such Series 2020 Bonds.

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

Duties, Immunities, and Liabilities of Trustee

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

RATINGS

Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a division of S&P Global Inc. ("S&P"), have assigned ratings to the Series 2020 Bonds of "Aa1" and "AA+," 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 2020 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 Series 2020 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 2020 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs-Revenue Bond Enterprise Fund as of and for the fiscal year ended August 31, 2019, have been audited by the Texas State Auditor's Office, independent auditors, as stated in their report rendered in connection therewith and are incorporated by reference in this Official Statement.

The financial data as of and for the nine months ended May 31, 2020, which is incorporated by reference in this Official Statement, has been derived from the unaudited internal records of the Department. The Department's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

The Department's FY2019 Audited Financial Statements (Revenue Bond Enterprise Fund) as of August 31, 2019 are available for inspection at the Department's offices, upon request, or at:

https://www.tdhca.state.tx.us/bond-finance/docs/F_STMSFY19.pdf

The Department's Interim Financial Statements as of May 31, 2020 are available for inspection at the Department's offices, upon request, or at:

<https://www.tdhca.state.tx.us/bond-finance/docs/official-statements/200531-SF-InterimFinancialStatements.pdf>

THE SERIES 2020 BONDS ARE SECURED ONLY BY THE ASSETS AND REVENUES DESCRIBED UNDER THE CAPTION "SECURITY FOR THE SERIES 2020 BONDS" AND NOT BY ANY OTHER SOURCE.

LITIGATION MATTERS

The Department is expected to deliver a certificate upon the delivery of the Series 2020 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 2020 Bonds, or in any way contesting or affecting the validity of the Series 2020 Bonds, the Junior Lien Trust Indenture or any proceedings of the Department taken with respect to the issuance or sale of the Series 2020 Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 2020 Bonds or such pledge or application of moneys and security.

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the Series 2020 Bonds are subject to the approving opinion of Bracewell LLP, Bond Counsel. Certain legal matters will be passed upon for the Department by its General Counsel, James "Beau" Eccles, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriter by its counsel Chapman and Cutler LLP.

In its capacity as Bond Counsel, Bracewell LLP has reviewed the information appearing in this Official Statement describing the Series 2020 Bonds, the security therefor and the federal income tax status thereof, appearing under the captions "THE SERIES 2020 BONDS," "SECURITY FOR THE SERIES 2020 BONDS" (not including the subcaption, "Certain Information as to Revenues, Debt Service and Department Expenses"), "SERIES 2020 BONDS – TAX MATTERS," and "APPROVAL OF LEGALITY" and in Appendix A, Appendix C and Appendix E to this Official Statement solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Act, the laws of the State, the Senior Lien Trust Indenture, the Junior Lien Trust Indenture, the Sixth Supplement, the Depository Agreement, the Series 2020 Bonds and the federal tax implications with respect to the Series 2020 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.

FINANCIAL ADVISOR

Stifel, Nicolaus & Co., Inc. (the "Financial Advisor") has served as financial advisor to the Department for purposes of assisting the Department with the development and implementation of the bond program in connection with the Series 2020 Bonds. The Financial Advisor has not been engaged by the Department to compile, create or interpret any information in this Official Statement relating to the Department, including (without limitation) any of the Department's financial and operating data, whether historical or projected.

Any information contained in this Official Statement concerning the Department, any of its affiliates or contractors and any outside parties has not been independently verified by the Financial Advisor, and inclusion of such information is not and should not be construed as a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm, and has not been engaged by the Department to review or audit any information in this Official Statement in accordance with accounting standards.

The Financial Advisor does not assume any responsibility for the covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

UNDERWRITING

The Series 2020 Bonds are being purchased from the Department by the Underwriter listed on the cover page of this Official Statement. Pursuant to the bond purchase agreement for the Series 2020 Bonds (the "Bond Purchase Agreement"), the Underwriter has agreed to purchase the Series 2020 Bonds at a total purchase price of par. The Underwriter will receive a fee of \$247,513.81. The Bond Purchase Agreement provides, among other things, that the Underwriter's obligation to make its purchase is subject to certain terms and conditions set forth in such Bond Purchase Agreement, including the approval of certain legal matters by their counsel and certain other conditions. The initial public offering prices of the Series 2020 Bonds may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the Series 2020 Bonds to certain dealers (including dealers depositing the Series 2020 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices other than the public offering prices stated on the inside front cover hereof.

Jefferies LLC, the Underwriter, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies LLC will sell the Series 2020 Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriter and its affiliates have provided, and may in the future provide, a variety of these services to the Department and to persons and entities with relationships with the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps, and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Department (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Department. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

ADDITIONAL INFORMATION

Certain provisions of the Act and the Junior Lien Trust Indenture are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. The information contained above is subject to change without notice and no implication is to be derived therefrom or from the sale of the Series 2020 Bonds that there has been no change in the affairs of the Department from the date hereof.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Department and the purchasers or owners of any of the Series 2020 Bonds.

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TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

By: /s/ Leslie Bingham
Vice Chair and Member
Governing Board

By: /s/ Bobby Wilkinson
Executive Director

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APPENDIX A GLOSSARY

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

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

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

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

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

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

"Authorized Denominations," shall mean \$5,000 and any integral multiple thereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

money and investments held under the Junior Lien Trust Indenture, and the successors and assigns of such Depository.

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

"Eligible Borrowers" shall mean persons meeting the requirements set forth in "APPENDIX D – SUMMARY OF THE PROGRAM AND THE MORTGAGE LOANS AND OTHER MATTERS – Eligible Borrowers."

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

"Fannie Mae Guides" shall mean the Fannie Mae Selling and Servicer Guides, or other Fannie Mae Guides then in effect on the date of its application.

"FDIC" shall mean the Federal Deposit Insurance Corporation, or its successor.

"FHA" shall mean the United States Department of Housing and Urban Development, Federal Housing Administration, or its successor.

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

"Freddie Mac Guide" shall mean the Freddie Mac Single-Family Seller/Servicer Guide, or other Freddie Mac Guide then in effect on the date of its application.

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

"Ginnie Mae" shall mean the Government National Mortgage Association, 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 (or participation therein) issued by the Master Servicer in accordance with the applicable Ginnie Mae Guide bearing interest at the applicable pass-through rate and representing the beneficial ownership interest in a Ginnie Mae pool, registered in the name of the Senior Lien Indenture Trustee and guaranteed as to timely payment of principal and interest by Ginnie Mae pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and regulations promulgated thereunder, backed by Mortgage Loans originated by Mortgage Lenders under the Program and packaged by the Master Servicer into a Ginnie Mae pool.

"Ginnie Mae Guide" means the GNMA II Mortgage Backed Securities Guide (Ginnie Mae 5500.3), as supplemented from time to time.

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

"Immediate Liquidity Termination" shall mean a termination of the Liquidity Facility for the Series 2020 Bonds before its expiration date pursuant to provisions in such Liquidity Facility that allow the Bank to terminate its obligation to purchase the Series 2020 Bonds immediately upon the occurrence of certain events set forth therein without giving any advance notice to the Department.

"Interest Payment Date" shall mean each March 1 and September 1, commencing March 1, 2021, and any date on which the Series 2020 Bonds are subject to redemption.

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

- (i) Government Obligations;
- (ii) FHA debentures;
- (iii) Bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America acting pursuant to authority granted by the Congress of the United States, including, without limitation, the following: Fannie Mae (excluding mortgage-backed securities valued at greater than par on the portion of unpaid principal and mortgage-backed securities representing payments of principal only or interest only with respect to the underlying loans); FHLMC (excluding FHLMC securities not guaranteed as to timely payment of principal); Ginnie Mae; Student Loan Marketing Association; or other successor agencies;
- (iv) Debt obligations (excluding obligations that do not have a fixed par value and/or the terms of which do not provide for payment of a fixed dollar amount at maturity or redemption) of any Person, but only if, as of the time of purchase of such debt obligations they are rated by each Rating Agency in the highest categories for long-term obligations;
- (v) Unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities not in excess of one year) of any bank (including the Trustee) the short-term unsecured debt obligations of which are at the time of such investment rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of S&P Global Ratings);
- (vi) Certificates of deposit and time deposits of any bank (including the Trustee or an affiliate of the Trustee) which are fully insured as to principal and interest by the FDIC (but not including deposits in any institution that has been placed in receivership or conservatorship by the FDIC at the time of such deposit);
- (vii) Commercial paper having maturities not in excess of one year rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of S&P Global Ratings) at the time of such investment;
- (viii) Money market funds rated at the time of such investment by each Rating Agency in the highest category for money market funds;
- (ix) Repurchase agreements the subject of which are obligations described in clauses (i), (ii) or (iii) above, with any Person whose long-term unsecured general indebtedness is at the time of such investment rated by a Rating Agency at least as high as the credit rating assigned to the Obligations or, if the term of such repurchase agreement does not exceed one year, whose short term unsecured general indebtedness is at the time of such investment rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of S&P Global Ratings);
- (x) Investment agreements secured or unsecured as required by the Department and in form and substance approved by the related Bond Insurer or Credit Provider, if any, with any Person whose long-term unsecured general indebtedness is at the date of execution of such agreement rated by a Rating Agency at least as high as the credit rating assigned to the Obligations or, if the term of such investment agreement does not exceed one year, whose short-term unsecured general indebtedness is at the date of execution of such agreement

rated by each Rating Agency in the highest category for short-term obligations (A-1+ in the case of S&P Global Ratings);

- (xi) Investment securities described in any Supplemental Indenture (which investment securities, if there is a Bond Insurer or Credit Provider for the related Series of Obligations, are approved by such Bond Insurer or Credit Provider) the inclusion of which in the definition of Investment Securities for purposes of the Junior Lien Trust Indenture will not adversely affect, in and of itself, any rating then assigned to the Obligations by a Rating Agency, as evidenced by a letter from such Rating Agency; and
- (xii) Any money market fund utilized by the Trustee if such fund maintains a credit rating at least as high as the credit rating assigned to the Obligations.

"Issuer Notes" shall mean the Department's Series 2018 Notes.

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

"Junior Lien Trust Indenture" shall mean the Amended and Restated Junior Lien Trust Indenture dated as of August 1, 2020, as supplemented, between the Department and the Trustee, as the same may be amended or supplemented from time to time by a Series Supplement and any other Supplemental Indenture in accordance with the terms thereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Rating Agency" shall mean: any nationally-recognized credit rating agency whose rating has been requested or consented to in writing by the Department, and approved by the Bond Insurer or Credit Provider, if any, for a Series, and is then in effect with respect to any of the Obligations.

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

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

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

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

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

"Senior Lien Indenture Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., as trustee under the Senior Lien Trust Indenture.

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

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

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

"Senior Lien Trust Indenture" shall mean that certain Amended and Restated Single Family Mortgage Revenue Bond Trust Indenture, dated as of June 1, 2017, between the Department and the Senior Lien Indenture Trustee, as supplemented and amended to the date hereof and from time to time hereafter.

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

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

"Series 2020 Bonds" shall mean the Department's Junior Lien Single Family Revenue and Refunding Bonds, Taxable Series 2020.

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

"Sixth Supplement" shall mean the Sixth Supplemental Junior Lien Trust Indenture (Series Supplement 2020) dated as of September 1, 2020, between the Department and the Senior Lien Indenture Trustee.

"State" shall mean the State of Texas.

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

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

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

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

"Surplus Revenues" shall mean any revenues remaining in the Revenue Fund under the Senior Lien Trust Indenture after all transfers required by the Senior Lien Trust Indenture on any interest payment date with respect to the Senior Lien Bonds have been made.

"Swap Agreement" shall mean an interest rate swap agreement entered by the Department with a swap provider, pursuant to which the Department and the swap provider agree to make payments thereunder with respect to a notional amount corresponding to the outstanding principal amount of the related series of variable rate Senior Lien Bonds for the purpose of effectively converting the interest rate on such Senior Lien Bonds to a fixed interest rate.

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

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

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

"Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America as trustee under the Junior Lien Trust Indenture, and its successors and assigns in such capacity.

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

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

APPENDIX B-1

ADDITIONAL INFORMATION CONCERNING MORTGAGE CERTIFICATES

Additional Information Concerning 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/Freddie Mac Certificates (Mortgage Certificates) acquired with the proceeds of the Department's Single Family Mortgage Revenue Bonds, Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bonds), Residential Mortgage Revenue Bonds, GNMA Collateralized Home Mortgage Revenue Bonds and Collateralized Home Mortgage Revenue Bonds. The following tables summarize certain information regarding Mortgage Certificates as of May 31, 2020.

Single Family Mortgage Revenue Bond Trust Indenture 1980 Trust Indenture

Bond Series	Original Issue Amount	Bonds Outstanding	Average Weighted Mortgage Rates for Outstanding Mortgage Certificates (%)	Mortgage Certificates Outstanding	Down Payment Assistance and Special Loans*
Surplus	\$ —	\$ —	4.88	\$ 12,749,416	\$ 96,393,174
2004 A, B	176,610,000	16,655,000	5.29	16,039,036	—
2004 C, D, E, F	175,070,000	11,645,000	5.08	11,191,925	—
2005 A	100,000,000	16,285,000	4.99	16,664,498	—
2007 A	143,005,000	15,835,000	5.88	20,135,651	—
2013 A	42,500,000	12,830,000	5.32	12,656,979	—
2015 A, B	53,695,000	28,940,000	5.38	28,362,471	—
2016 A, B	91,245,000	47,230,000	5.39	45,709,908	—
2017 A, B, C	133,700,952	107,201,238	4.59	108,362,252	—
2018 A	143,995,000	138,565,000	5.09	136,629,659	—
2019A	165,325,000	164,945,000	4.43	163,936,584	—
TOTAL	\$1,225,145,952	\$ 560,131,238		\$ 572,438,379	\$ 96,393,174

*Not included for cash flow purposes

Note Series	Original Notes Payable	Notes Outstanding
2018	\$ 12,000,000	\$ 12,000,000

1994 Junior Lien Indenture

Series	Original Issue Amount	Bonds Outstanding	Average Weighted Mortgage Rates for Outstanding Mortgage Certificates (%)	Mortgage Certificates Outstanding
1994 A, B	\$ 90,995,932	\$ —	N/A	\$ —
2004 A	4,140,000	3,855,000	N/A	—
TOTAL	\$ 95,135,932	\$ 3,855,000		\$ —

Master Servicers—Single Family (incl. Junior Lien) Mortgage Certificates

Servicers	Percent of Mortgage Certificates Outstanding
Idaho HFA	68.04%
Bank of America	24.21%
US Bank	6.25%
CitiMortgage	1.00%
Texas Star	0.47%
Cenlar	0.03%
TOTAL	100.00%

Other Information

Mortgage Loan Information Management System

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

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

DISCLAIMER

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

APPENDIX B-2

BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

General - Single Family Since 1979, the year of creation of the Texas Housing Agency (the Agency), a predecessor to the Department, through May 31, 2020, there have been issued by the Agency or the Department, sixty-one series of Single Family Mortgage Revenue Bonds, four series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, thirty-seven series of Residential Mortgage Revenue Bonds, eleven series of Collateralized Home Mortgage Revenue Bonds, ten series of GNMA/FNMA Collateralized Home Mortgage Revenue Bonds, and two series of Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds. As of May 31, 2020, the aggregate outstanding principal amount of bonded indebtedness of the Department for single family housing purposes was \$806,776,238. In addition to the single family bonds mentioned above, the Department has issued four subordinate Notes. As of May 31, 2020, the aggregate outstanding principal balance of the subordinate Notes was \$22,000,000.

Single Family Mortgage Revenue Bonds (SFMRBs) As of May 31, 2020, the Department has issued sixty-one series of Single Family Mortgage Revenue and Refunding Bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, which was amended and restated on June 1, 2017. These bonds are secured on an equal and ratable basis by the trust estate established by the SFMRB Indenture. As of May 31, 2020, fourteen series were outstanding with an aggregate outstanding principal amount totaling \$560,131,238. In addition to the SFMRBs mentioned above, the Department has issued three subordinate Notes with an outstanding balance of \$12,000,000. On July 8, 2020, the Department issued \$174,250,000 Single Family Mortgage Revenue Bonds, 2020 Series A, and \$12,395,143 Single Family Mortgage Revenue Refunding Bonds, 2020 Series B (Taxable), which refunded the Department's outstanding Single Family Mortgage Revenue Refund Bonds, 2013 Series A (Taxable).

Junior Lien Bonds The Department has issued four series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the Junior Lien Bonds) pursuant to a Junior Lien Trust Indenture, dated as of May 1, 1994. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the SFMRB Indenture. As of May 31, 2020, one series was outstanding with an aggregate outstanding principal of \$3,855,000.

Residential Mortgage Revenue Bonds (RMRBs) As of May 31, 2020, the Department has issued thirty-seven series of Residential Mortgage Revenue and Refunding Bonds pursuant to the Residential Mortgage Revenue Bond Trust Indenture, and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of May 31, 2020, five series were outstanding with an aggregate outstanding principal amount of \$242,790,000. In addition to the RMRBs mentioned above, the Department has issued one subordinate Note with an outstanding balance of \$10,000,000.

General - Multifamily The Department is a conduit issuer for the State of Texas with authority to issue tax-exempt and taxable Multifamily Mortgage Revenue Bonds statewide. The Department and the Agency have issued Multifamily Mortgage Revenue Bonds pursuant to separate trust indentures and are secured by individual trust estates which are separate and distinct from each other. As of May 31, 2020, the aggregate outstanding principal amount was \$769,389,579. In addition, the Department has Multifamily Notes Payable with an outstanding balance of \$114,223,896.

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APPENDIX C

FORM OF PROPOSED OPINION OF BOND COUNSEL

September 16, 2020

Texas Department of Housing and
Community Affairs
221 East 11th Street
Austin, Texas 78701

The Bank of New York Mellon
Trust Company, N.A., as Trustee
4655 Salisbury Road, Suite 300
Jacksonville, Florida 32256

Jefferies LLC
520 Madison Avenue, 4th Floor
New York, New York 10022

Ladies and Gentlemen:

We have acted as Bond Counsel to the Texas Department of Housing and Community Affairs (the “Department”) in connection with the issuance of the Department’s Junior Lien Single Family Revenue Bonds, Taxable Series 2020 (the “Series 2020 Bonds”). The Series 2020 Bonds will bear interest from the date of delivery thereof, payable on March 1, 2021, and semiannually on each September 1 and March 1 thereafter, and on any other date on which the Series 2020 Bonds are subject to redemption, until maturity or prior redemption. The Series 2020 Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof. The Series 2020 Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture described below. The Series 2020 Bonds are subject to redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

The Series 2020 Bonds are being issued pursuant to a resolution adopted by the Governing Board of the Department on July 23, 2020 (the “Bond Resolution”), the Amended and Restated Junior Lien Trust Indenture dated as of August 1, 2020 (as amended and supplemented from time to time, the “Junior Lien Indenture”), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and the Sixth Supplemental Junior Lien Trust Indenture dated as of September 1, 2020 (the “Sixth Supplemental Indenture”), between the Department and the Trustee with respect to the Series 2020 Bonds. The Junior Lien Indenture and the Sixth Supplemental Indenture are referred to herein collectively as the “Indenture.” Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

The Series 2020 Bonds are being issued by the Department in order to (i) refund the Department’s Series 2018 Issuer Notes, (ii) make and acquire second lien mortgage loans to qualifying borrowers in the Department’s single family mortgage purchase program in order to provide down payment and closing cost assistance to such borrowers, and (iii) pay a portion of the costs of issuance of the Series 2020 Bonds.

The Junior Lien Indenture permits the issuance of additional Obligations on a parity with the Series 2020 Bonds upon the terms and conditions set forth in the Junior Lien Indenture. The Department reserves the right in the Junior Lien Indenture to issue other Obligations under the Junior Lien Indenture for any lawful purpose, and further reserves the right to issue Obligations payable from the pledges and assignments in trust pursuant to the Junior Lien Indenture that are junior or subordinate to the Series 2020 Bonds, all as provided in the Junior Lien 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 2020

Bonds and the security therefor. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2020 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 2020 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 also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. We have also examined executed Series 2020 Bond No. TR-1.

We have assumed without independent verification (i) the genuineness of certificates, records and other documents (collectively, “Documents”) and the accuracy and completeness of the statements of fact contained therein; (ii) the due authorization, execution and delivery of the Documents by the other parties thereto; (iii) that all Documents submitted to us as originals are accurate and complete; (iv) that all Documents submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us and on which we have relied is accurate and complete.

Based upon such examination and subject to the assumptions, qualifications and limitations set forth herein, it is our opinion that, under existing law:

1. The Department is a public and official governmental agency of the State, duly created 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 Sixth Supplemental Indenture; to perform its obligations under the Indenture; and to issue and sell the Series 2020 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 Sixth Supplemental Indenture. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department’s right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal and redemption price of and interest on the Series 2020 Bonds. We draw your attention to the fact that the Series 2020 Bonds are secured on a subordinate basis to (i) any bonds from time to time issued and outstanding under that certain Amended and Restated Single Family Mortgage Revenue Bond Trust Indenture dated as of June 1, 2017(as supplemented and amended from time to time, the “Single Family Indenture”), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee, and (ii) certain obligations of the Department to the swap providers and the liquidity providers for certain bonds issued under the Single Family Indenture. While no other Obligations currently are Outstanding under the Junior Lien Indenture, we draw your attention to the fact that the Series 2020 Bonds will be secured on a parity basis with any additional Obligations issued under the Junior Lien Indenture, unless subordinated.

3. The Department has duly authorized the issuance, execution and delivery of the Series 2020 Bonds. The authorized officers of the Department have duly executed the Series 2020 Bonds and the Trustee has duly authenticated the Series 2020 Bonds, to the extent required by the Indenture, and delivered the Series 2020 Bonds to or at the direction of the initial purchaser thereof. The Series 2020 Bonds constitute legal, valid and binding limited obligations of the Department and are entitled to the benefit and security of the Indenture.

4. The Series 2020 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 2020 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.

We observe that the Department has taken no action to make interest on the Series 2020 Bonds excludable from gross income for federal income tax purposes. 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 2020 Bonds.

The enforceability of certain provisions of the Series 2020 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors. Furthermore, the availability of equitable remedies under the Series 2020 Bonds may be limited by general principles of equity that permit the exercise of judicial discretion. Furthermore, the enforceability of any indemnification provisions contained in the Indenture may be limited by applicable securities laws and public policy.

The opinions set forth above speak only as of their date and only in connection with the Series 2020 Bonds and may not be applied to any other transaction. Such opinions are specifically limited to the laws of the State of Texas.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement these opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

Very truly yours,

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APPENDIX D

SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS

THE PRIOR SENIOR LIEN BONDS

Multiple series of Senior Lien Bonds have been issued pursuant to the Senior Lien Trust Indenture. As of May 31, 2020, \$560,131,238 in aggregate principal amount of such Senior Lien Bonds were Outstanding in the following principal amounts:

Series	Original Issue Amount	Bonds Outstanding
2004 A/ B	\$ 176,610,000	\$ 16,655,000
2004 C/ D/ E/ F	175,070,000	11,645,000
2005 A	100,000,000	16,285,000
2007 A	143,005,000	15,835,000
2013 A	42,500,000	12,830,000
2015 A/ B	53,695,000	28,940,000
2016 A/ B	91,245,000	47,230,000
2017 A/ B / C	133,700,952	107,201,238
2018 A	143,995,000	138,565,000
2019 A	165,325,000	164,945,000
TOTAL	\$ 1,225,145,952	\$ 560,131,238

For a more detailed description of the Senior Lien Bonds, please refer to "APPENDIX B-2 – BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS."

PRIOR MORTGAGE CERTIFICATES

Mortgage Certificates currently held under the Single Family Mortgage Revenue Bond Program are as follows:

Prior Mortgage Loans and Mortgage Certificates:

Ginnie Mae	\$541,234,656
Fannie Mae	28,876,823
Freddie Mac	2,326,900
TOTAL	<u>\$572,438,379</u>

For additional information regarding the Mortgage Certificates acquired with proceeds of the Senior Lien Bonds, please refer to "Appendix B-1 – ADDITIONAL INFORMATION CONCERNING MORTGAGE CERTIFICATES." Unless otherwise specified, all information is as of May 31, 2020.

Junior Lien Bonds

In addition to the Senior Lien Bonds, the Department has issued \$105,135,932 in original principal amount of its Junior Lien Bonds. As of May 31, 2020, \$3,855,000 of such bonds remained outstanding. For additional information on the Junior Lien Bonds, see "APPENDIX B-2 BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS." Revenues under the Trust Indenture only become Surplus Indenture Revenues available to be released to pay debt service on the Junior Lien Bonds to the extent such revenues are, on any March 1 or September 1 or other date on which such debt service is payable, in excess of one hundred percent (100%) of (i) all Debt Service on the Bonds, including Swap Agreement Periodic Payments, (ii)

amounts required to fund reserves for the Bonds, and (iii) all expenses of the Department in administering the programs related to the Bonds. See "APPENDIX E – SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND THE JUNIOR LIEN TRUST INDENTURE – Revenue Fund."

INVESTMENT OF FUNDS

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

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: safety of principal, (2) sufficient liquidity to meet Department cashflow needs, (3) achievement of a market rate of return on investments, and (4) conformance with all applicable State statutes, particularly the Public Funds Investment Act, Chapter 2256 Texas Government Code, as amended. With respect to bond proceeds, the Investment Policy provides that such proceeds should be invested in accordance with the applicable law, in particular the Public Funds Investment Act and as permitted by the applicable trust indenture.

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

ADDITIONAL OBLIGATIONS

Various series of Obligations may be issued as provided in the Master Indenture on a parity with the Series 2020 Bonds, secured by a pledge of and lien on the Trust Estate. In addition, the Department may issue Subordinated Obligations which are subordinated in terms of repayment of the Obligations. As a condition to the issuance of additional Obligations, including Subordinated Obligations, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the Series of Obligations will be legally issued in accordance with the Master Indenture and the Act. The Department must also deliver a Cashflow Statement which gives effect to the issuance of such additional Obligations as described above under the subheading "Cashflow Statement." The Department has reserved the right to adopt one or more additional general bond indentures and to issue other obligations payable from sources other than the Trust Estate. In addition, pursuant to the Senior Lien Trust Indenture, the Department has reserved the right to issue additional Senior Lien Bonds upon compliance with certain requirements as set forth therein.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

The Department has entered into a Depository Agreement relating to the Bonds (as amended and supplemented, the "Depository Agreement"), by and among the Department, the Trustee, and the Texas Treasury Safekeeping Trust Company, a special-purpose trust company organized under the laws of the State of Texas (the "Trust Company"). Pursuant to the Depository Agreement, the Trust Company will hold all moneys and securities required to be credited to all Funds (other than the Principal Account, Interest Account, Swap Agreement Periodic Payment Account and Redemption Account of the Debt Service Fund, and the Expense Fund). All money and securities required by the Trust Indenture to be credited to such Funds and Accounts 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 under "APPENDIX E – SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND THE JUNIOR LIEN TRUST INDENTURE – Investments." The Trust Company is required to hold all moneys and securities delivered to it under the Depository Agreement in trust for the benefit of the Department, the Trustee and the owners of the Bonds.

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

DTC AND BOOK-ENTRY

DTC will act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2020 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2020 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' Records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC

and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Series 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

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

The Department, the Underwriter and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series 2020 Bonds (i) payments of principal of or interest and premium, if any, on the Series 2020 Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial

ownership interest in Series 2020 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2020 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

NEITHER THE DEPARTMENT, THE UNDERWRITERS NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 2020 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2020 BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE TRUST INDENTURE TO BE GIVEN TO OWNERS OF SERIES 2020 BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF SERIES 2020 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS A BONDHOLDER.

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 2020 Bonds. Series 2020 Bonds may be exchanged for an equal aggregate principal amount of Series 2020 Bonds in other Authorized Denominations of the same Series and maturity 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 2020 Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 2020 Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Series 2020 Bonds, the Department or the Trustee may make a charge sufficient to reimburse it or them for any tax, fee, or other governmental charge required to be paid with respect to such exchange or registration of transfer, as well as the administrative expenses, if any, charged by the Trustee for the transfer or exchange. The Trustee will not be required to transfer or exchange any Series 2020 Bond for a period of 20 days next preceding an interest payment date on such Series 2020 Bonds or next preceding any selection of Series 2020 Bonds to be redeemed or thereafter until after mailing of any notice of redemption on any Series 2020 Bonds called for redemption, or transfer or exchange any Series 2020 Bonds called for redemption. The Department and the Trustee may treat the Person in whose name a Series 2020 Bond is registered as the absolute owner thereof for all purposes, whether such Series 2020 Bond is overdue or not, for the purpose of receiving payment of, or on account of the principal of, interest on, such Series 2020 Bond. If any Series 2020 Bond is not presented for payment when the principal or the Redemption Price therefor becomes due, and if moneys sufficient to pay such Series 2020 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 2020 Bonds (or portion thereof) or such interest, as applicable, will be discharged, and thereupon it shall be the duty of the Trustee to hold such money for the benefit of the owner of the applicable Series 2020 Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Trust Indenture or on or with respect to, such principal, Redemption Price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), in accordance with Title 6, Texas Property Code.

SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM

The Department has established a Single Family Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). In connection with the issuance of the Senior Lien Bonds and any additional Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or participations therein) or Mortgage Certificates backed

by Mortgage Loans originated by commercial banks, savings and loan associations, mortgage companies, non-profit corporations, and other qualified financial institutions (the "Mortgage Lenders").

General

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

Down Payment Assistance

The Department provides funds for down payment and closing cost assistance (the "DPA Loans") in the form of a 0% non-amortizing, 30-year second loan that is due on sale or refinance. DPA Loans are originated for 2, 3, 4 or 5 points of down payment and closing cost assistance. The Department reserves the right to modify the down payment assistance options available through the Program at any time.

Mortgage Lender Reservations – First Come, First-Served

No funds made available through the Program 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.

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. The Maximum Acquisition Cost varies according to location.

Mortgage Loans

The Department is not permitted under the Trust Indenture to sell, assign, transfer, or otherwise dispose of any Mortgage Loan or any of the rights of the Department with respect to any Mortgage Loan unless the Department determines that such action is in the best interests of the Department and the Bondholders and will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds, in which case such Mortgage Loan may

be so disposed of by the Department free and clear of the lien of the Trust Indenture. See "Sale of Mortgage Certificates."

The Department shall not consent or agree to or permit any amendment or modification of any Mortgage Loan which will in any manner materially impair or materially adversely affect the rights or security of the Bondholders under the Trust Indenture in such Mortgage Loan.

Servicing

The Master Servicer may deduct its servicing fees directly from amounts received on such Mortgage Loans. As compensation for its duties as servicer of Mortgage Loans, the Master Servicer will be entitled to receive a monthly servicing fee.

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

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

The Master Servicers

As of May 31, 2020, Idaho Housing and Finance Association (the "Idaho HFA") participates as Master Servicer for the Department for approximately 2,335 Mortgage Loans financed with the proceeds of the Prior Senior Lien Bonds, which Mortgage Loans had an outstanding principal balance of \$389,489,859.

Under the terms of the servicing agreement (the "Servicing Agreement"), the Department may terminate the Servicing Agreement without cause upon 120 days advance written notice to the Idaho HFA. The Department may terminate the Servicing Agreement (subject to any applicable cure period) upon the occurrence of certain events. The Servicing Agreement has an approximately one year initial term with up to three one-year extensions as mutually agreed. If the Department terminates the Servicing Agreement for cause, then all power of the Idaho HFA under the Servicing Agreement shall be vested in the substitute Master Servicer.

If the Department terminates the Servicing Agreement for cause pursuant to its terms, the Idaho HFA shall, consistent with GNMA and Fannie Mae or Freddie Mac standards, make a full accounting and transfer and deliver to the Department, or its designee, all documents and moneys relating to the eligible mortgage loans which are then in the Idaho HFA's possession or under its custody or control, and thereupon all rights and duties of the Idaho HFA and its rights to further compensation shall cease.

The Texas State Affordable Housing Corporation ("TSAHC") is the Master Servicer for various Mortgage Loans financed pursuant to the Trust Indenture. 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 May 31, 2020, TSM participates as Master Servicer for the Department for approximately 136 Mortgage Loans financed with the proceeds of the Prior Senior Lien Bonds, which Mortgage Loans had an outstanding principal balance in the amount of \$2,675,516.

As of May 31, 2020, CitiMortgage, Inc. participates as Master Servicer for the Department for approximately 214 Mortgage Loans financed with the proceeds of the Prior Senior Lien Bonds, which Mortgage Loans had an outstanding principal balance of \$5,718,672. CitiMortgage recently sold servicing rights to Cenlar FSB for 12 Mortgage Loans, which Mortgage Loans had an outstanding principal balance of \$187,996 (not inclusive in Mortgage Loans currently serviced by CitiMortgage).

Bank of America, N.A. ("Bank of America") is the Master Servicer for various Mortgage Loans, including the Mortgage Loans underlying the Refunded Bonds, financed pursuant to the Trust Indenture. As of May 31, 2020, Bank of America participates as Master Servicer for the Department for approximately 2,210 Mortgage Loans financed with the proceeds of the Prior Senior Lien Bonds, which Mortgage Loans had an outstanding principal balance of \$138,615,360.

US Bank National Association ("US Bank") is the Master Servicer for various Mortgage Loans financed pursuant to the Trust Indenture. As of May 31, 2020, US Bank participates as Master Servicer for the Department of approximately 297 Mortgage Loans financed with the proceeds of the Prior Senior Lien Bonds, which Mortgage Loans had an outstanding principal balance of \$35,750,976.

Sale of Mortgage Certificates

The Department may sell Mortgage Certificates in whole or part only upon delivery by the Department of (i) a statement of Projected Revenues establishing that such sale will not adversely affect the ability of the Department to pay when due the principal or the Redemption Price of and interest on the Bonds and (ii) written confirmation from each Rating Agency that such sale will not adversely affect the then current ratings on the Bonds (determined without regard to any bond insurance or similar credit enhancement). If proceeds from the sale of the Mortgage Certificates are to be applied to the redemption of Series 2020 Bonds, such Series 2020 Bonds must be redeemed under the applicable optional redemption provision.

Investment of Funds

Moneys in all Funds will be invested pursuant to the Depository Agreement with the Texas Treasury Safekeeping Trust Company in Investment Securities. See "APPENDIX D – SUMMARY OF INFORMATION REGARDING THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – Texas Treasury Safekeeping Trust Company." Moneys held or invested in all Funds and Accounts under the Trust Indenture (other than the Rebate Account, the Swap Agreement Termination Payment Subaccount and the Swap Agreement Termination Receipt Subaccount of the Surplus Revenues Account of the Revenue Fund and the Policy Payments Account) are for the equal and ratable benefit of all owners of the Bonds.

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The following table summarizes certain information as of May 31, 2020, regarding yields (calculated on the basis of stated maturity) on existing investments (valued at par) within the Float Fund in connection with outstanding Senior Lien Bonds.

Fund or Account	Approximate Amount Invested (Par Value)	Investment Rate (%)	Investment Maturity Date	Investment Security / Investment Agreement Provider
1980 Single Family Surplus Rev	1,125,357	0.03	Short Term	NATWEST
1980 Single Family Surplus Rev	14,646,212	6.08	9/30/2029	FGIC
1991 A S/F (1980 A Refunding)	776,551	0.03	Short Term	NATWEST
1991 A S/F (1980 A Refunding)	3,230,149	6.08	9/30/2029	FGIC
1994 A&B SF (1983 Refunding)	10,025	0.03	Short Term	NATWEST
1994 A&B SF (1983 Refunding)	45,956	6.08	9/30/2029	FGIC
1996 D&E Single Family	3,808	0.03	Short Term	NATWEST
1997 D-F Single Family	263,292	0.03	Short Term	Greenwich
2002 A-D Single Family	20,480	0.03	Short Term	NATWEST
2002A Single Family (JR Lien)	96,988	0.03	Short Term	NATWEST
2004 A/B Single Family	3,494,161	0.03	Short Term	NATWEST
2004 A/B Single Family	1,525,091	3.96	3/1/2036	Transamerica Life
2004 CDEF Single Family	1,260,020	0.03	Short Term	NATWEST
2004 CDEF Single Family	1,061,660	3.8	3/1/2036	Transamerica Life
2004 A Single Family	116,077	0.03	Short Term	NATWEST
2005 A Single Family	343,067	0.03	Short Term	NATWEST
2005 A Single Family	780,699	3.37	9/1/2036	Transamerica Life
2007A Single Family	405,860	0.03	Short Term	NATWEST
2007A Single Family	1,229,962	4.32	9/1/2038	Transamerica Life
2013 A Single Family Refunding	570,311	0.03	Short Term	NATWEST
2015 AB Single Family	1,228,682	0.03	Short Term	NATWEST
2016 AB Single Family	2,630,028	0.03	Short Term	NATWEST
2017 ABC Single Family	2,895,808	0.03	Short Term	NATWEST
2018 A Single Family	4,356,718	0.03	Short Term	NATWEST
2019 A Single Family	1,622,343	0.03	Short Term	NATWEST
Grand Total	43,739,304			

The ability of the Department to make timely payments of principal of and interest on the Series 2020 Bonds and the Senior Lien Bonds, could be affected if the parties to the various investment agreements for the Senior Lien 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 cash flow 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.

OTHER DEPARTMENT PROGRAMS

The Department administers a variety of programs, in addition to its single family mortgage revenue bond program, that also fulfill its goals of providing safe and affordable housing throughout the State. Some of these programs may overlap or compete with the Program.

Taxable Mortgage Program

In addition to the Program, the Department offers mortgage loan financing options through its Taxable Mortgage Program (the "TBA Program"). Currently, all mortgage loans originated through the TBA Program are accompanied by a DPA Loan through which the mortgagor receives funds for down payment and closing cost assistance in the form of a 0%, non-amortizing, 30-year second loan that is due on sale or refinance. Mortgage loans originated through the TBA Program are pooled into mortgage-backed securities that are sold to third-party investors. *Neither the mortgage loans nor the mortgage-backed securities originated through the TBA Program are pledged to the Indenture.* Below is a description of current loan options available through the TBA Program.

Bond Eligible Loans. Provided through the Department's My First Texas Home program, these loans typically offer the lowest mortgage rates available through the TBA Program. Borrowers must be Eligible Borrowers (including meeting the first-time homebuyer requirement). Income qualification is performed in accordance with IRS requirements for tax exempt mortgage revenue bonds, and loan documents include standard tax exempt loan documentation (such as tax exempt riders and recapture disclosure). Typically, mortgage loans may be originated as Bond Eligible Loans when the Department has no bond proceeds available. When bond proceeds are available, mortgage loans are typically reserved and originated through the Single Family Mortgage Revenue Bond Program.

Combo Loans. Offered through the Department's My First Texas Home program, these loans include a Mortgage Credit Certificate (MCC) issued by the Department to the borrower. Borrowers must be Eligible Borrowers and must meet the first-time homebuyer requirement; income qualification is performed in accordance with IRS requirements for tax exempt mortgage revenue bonds. Combo Loans are not eligible for inclusion in a tax-exempt bond program.

Taxable Loans. Offered through the Department's My Choice Texas Home program, these loans provide the most qualification flexibility. Borrowers must meet the requirements for an Eligible Borrower except that there is no first-time homebuyer requirement and income qualification is performed using standard 1003 credit qualifying income. Taxable Loans are not eligible for inclusion in a tax-exempt bond program.

Residential Mortgage Revenue Bond Program

The Department administers a residential revenue bond program that finances mortgage loans to certain qualified first-time homebuyers, which is similar to the Program. For information regarding this program see "APPENDIX B-2 – BOND SUMMARY OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS."

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PRIOR SWAP AGREEMENTS

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

Related Series	Swap Provider	Initial Notional Amount	5/31/2020 Notional Amount	Fixed Rate	Variable Rate Index
2004 Series B	The Bank of New York Mellon	\$ 53,000,000	\$14,895,000	3.671%	65.5% of LIBOR + 0.20%
2004 Series D	Goldman Sachs Bank USA	\$ 35,000,000	\$10,885,000	3.084%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR
2005 Series A	JPMorgan Chase Bank, N.A.	\$100,000,000	\$16,285,000	4.01%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR
2007 Series A	JPMorgan Chase Bank, N.A.	\$143,005,000	\$15,835,000	4.013%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR

Scheduled payments under the Prior Swap Agreements are subordinate to payments of principal and interest on the Bonds. The Department's scheduled fixed payments associated with the Series 2004B Bonds are insured by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance).

The Prior Swap Agreements present certain financial risks to the Department under the Indenture. See "BONDHOLDER RISKS – Swap Basis Risk" and "– Swap Termination Risk" herein.

PRIOR LIQUIDITY FACILITIES

General

In connection with certain variable rate Senior Lien Bonds, the Department entered into liquidity agreements (the "Prior Liquidity Facilities") with the Texas Comptroller of Public Accounts (the "Comptroller"), which succeeded the original liquidity facilities provided at issuance of certain Senior Lien Bonds by the original liquidity facility providers. The Bondholders of such Senior Lien Bonds have the right, and in certain circumstances may be required, to tender such Senior Lien Bonds at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of purchase. The purchase price of any such Senior Lien Bonds tendered or deemed tendered for purchase and not remarketed by the purchase date will (subject to certain conditions) be payable from amounts made available under the respective Prior Liquidity Facilities.

Bond Series	Outstanding Bond Amount 5/31/2020	Bank Bonds 5/31/2020	Liquidity Provider	Liquidity Provider Expiration Date
2004B	\$ 16,655,000	–	Texas Comptroller	8/31/2021
2004D	\$ 11,645,000	–	Texas Comptroller	8/31/2021
2005A	\$ 16,285,000	–	Texas Comptroller	8/31/2021
2007A	\$ 15,835,000	–	Texas Comptroller	8/31/2021
2004A JL Taxable	\$ 3,855,000	–	Texas Comptroller	8/31/2021

Variable Rate Bondholders and Liquidity Facilities

The Prior Liquidity Facilities are scheduled to expire prior to the scheduled final maturity of the related Senior Lien Bonds. In connection with any such scheduled expiration, the Department may take various actions, including, but not limited to, extending, with the consent of the Comptroller, the scheduled expiration of a Prior Liquidity Facility, obtaining a substitute liquidity facility to replace the existing Prior Liquidity Facility, or causing the related Senior Lien Bonds to be converted to a fixed rate or to bear interest at an interest rate mode that does not require a liquidity facility. Under certain circumstances, the Comptroller may terminate a Prior Liquidity Facility without affording the applicable Bondholders a right to optionally tender their Senior Lien Bonds. No assurance is given that the Department will be able or will choose to extend the scheduled expiration on any particular Prior Liquidity Facility or obtain a substitute liquidity facility to replace a Prior Liquidity Facility upon terms substantially similar to the terms of the existing Prior Liquidity Facility.

APPENDIX E

SUMMARY OF INFORMATION REGARDING THE SENIOR LIEN TRUST INDENTURE AND JUNIOR LIEN TRUST INDENTURE

THE SENIOR LIEN TRUST INDENTURE

General

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

Funds and Accounts

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

The supplemental indentures that authorize the issuance of additional bonds under the Senior Lien Trust Indenture create, at times, accounts within each listed fund and subaccounts within each listed account except for the special mortgage loan fund, the debt service reserve account and the swap agreement periodic payment account.

Mortgage Loan Fund

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

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

The Department has covenanted in the Senior Lien Trust Indenture that it will acquire, refinance or sell mortgage loans or mortgage certificates only if it has determined, on the basis of its most recent Statement of Projected revenues, and other information available to it, that such action will not adversely affect the

Department's ability to pay, when due, the principal or redemption price of and interest on the Senior Lien Bonds.

Expense Fund

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

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

Revenue Fund

All revenues are required to be deposited in the revenue fund promptly upon receipt by the Department. On the first day of each month, or as soon thereafter as possible, the Senior Lien Indenture Trustee is required to transfer from the revenue fund to the expense fund the amount, estimated by the Department, to be required to pay the Department expenses during the next month together with the amount, if any, necessary to maintain or restore an operating reserve in the expense fund to the sum estimated in the Department's current annual budget to be required to pay two months' Department expenses.

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

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

During such time as the Department is not meeting the Asset Test described in the next succeeding paragraph, the Department may only direct the Senior Lien Indenture Trustee (i) to transfer Surplus Revenues to the mortgage loan fund or the redemption account for the Senior Lien Bonds; (ii) to invest the Surplus Revenues in Investment Securities; or (iii) if the Department shall have on file with the Senior Lien Indenture Trustee a Statement of Projected Revenues, projecting that revenues to the extent deemed available or to be available to pay Department expenses and aggregate debt service on Senior Lien Bonds will be sufficient

to pay such Department expenses and aggregate debt service when due in the then current and each succeeding Bond Year, and as of the date of such Statement of Projected Revenues the Department Assets are at least equal to one hundred percent (100%) of the aggregate principal amount of Senior Lien Bonds then outstanding, then Surplus Revenues may be used to pay principal, interest and redemption price on Obligations or establish and maintain reserves or other funds and accounts as provided in the Junior Lien Trust Indenture.

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

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

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

**Debt Service Fund – Interest Account; Principal Account; Swap Agreement
Periodic Payment Account; Redemption Account**

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

Amounts in the principal account with respect to any sinking fund redemption (together with amounts in the interest account with respect to accrued interest on the Senior Lien Bonds to be so redeemed) are required to be applied by the Senior Lien Indenture Trustee to pay the redemption price of the Senior Lien Bonds to be so redeemed. Amounts in the redemption account (together with amounts in the interest account with respect to accrued interest on the Senior Lien Bonds to be redeemed from the redemption

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

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

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

Debt Service Reserve Account

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

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

Withdrawals from Funds to Pay Debt Service

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

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

Investments

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

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

Events of Default

Each of the following events is an "event of default" under the Senior Lien Trust Indenture: (i) default in the due and punctual payment of the principal or redemption price of any Senior Lien Bond when due, and such default continues for a period of 30 days; (ii) default in the due and punctual payment of any installment of interest on any Senior Lien Bond when due; (iii) default by the Department in the performance or observance of any other of its covenants, agreements, or conditions in the Senior Lien Trust Indenture or in the Senior Lien Bonds, and the continuance of such default for a period of 60 days after written notice thereof to the Department by the Senior Lien Indenture Trustee or to the Department and to the Senior Lien Indenture Trustee by the owners of not less than ten percent (10%) in principal amount of the Senior Lien Bonds then outstanding; or (iv) the commencement of various proceedings involving the Department in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, state or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the Department or for all or a substantial part of its property, and unless commenced by or consented to by the Department, their continuation for 90 days undischarged or undischarged.

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

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

order of their due dates, and, if the amount available is not sufficient to pay in full all the Senior Lien Bonds due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, without any discrimination or preference; and

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

- (c) to the payment of Swap Agreement Termination Payments but only to the extent that the amount available shall be sufficient to pay the principal or the redemption price of and interest on any Obligations then due and payable prior to the payment of any amount in satisfaction of Swap Agreement Termination Payments; and
- (d) to the payment of the amounts required for reasonable and necessary Department expenses allocable to Senior Lien Bonds, the Senior Lien Trust Indenture or the mortgage loan programs thereunder.

Senior Lien Indenture Trustee

The Bank of New York Mellon Trust Company, N.A., a national banking association having a corporate trust office located in Jacksonville, Florida is currently the Senior Lien Indenture Trustee for all series of Senior Lien Bonds issued under the Senior Lien Trust Indenture.

Depositories

The Department may appoint one or more depositories to hold all or a designated portion of the moneys and investments subject to the lien and pledge of the Senior Lien Trust Indenture. Any depository appointed by the Department must be: (i) the Texas Treasury Safekeeping Trust Company; or (ii) a bank, trust company, a national banking association, a savings and loan association, savings bank or other banking institution or association selected by the Department. See "APPENDIX D – SUMMARY OF THE PROGRAM AND MORTGAGE LOANS AND OTHER MATTERS – Texas Treasury Safekeeping Company."

Supplemental Senior Lien Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, the Department may adopt a Supplemental Senior Lien Trust Indenture, which, upon the filing with the Senior Lien Trust Indenture Trustee of a copy thereof certified by an authorized officer of the Department, shall be fully effective in accordance with its terms: (i) to authorize Senior Lien Bonds of a series and, in connection therewith, to specify and determine matters and things relative to such Senior Lien Bonds which are not contrary to or inconsistent with the Senior Lien Trust Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Senior Lien Bonds; (ii) to close the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture on, the delivery of Senior Lien Bonds or the issuance of other evidences of indebtedness; (iii) to add to the covenants and agreements of the Department in the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust

Indenture, other covenants and agreements to be observed by the Department which are not contrary to or inconsistent with the Senior Lien Trust Indenture or the applicable Supplemental Senior Lien Trust Indenture as theretofore in effect; (iv) to add to the limitations and restrictions in the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture other limitations and restrictions to be observed by the Department which are not contrary to or inconsistent with the Senior Lien Trust Indenture or the applicable Supplemental Senior Lien Trust Indenture as theretofore in effect; (v) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture, of the trust estate under the Senior Lien Trust Indenture or of any other moneys, securities or funds; (vi) to modify any of the provisions of the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture in any respect whatever, provided that (a) such modification shall be, and be expressed to be, effective only after all Senior Lien Bonds of any series outstanding at the date of the adoption of such Senior Lien Trust Indenture or Supplemental Senior Lien Trust Indenture shall cease to be outstanding; and (b) such Supplemental Senior Lien Trust Indenture shall be specifically referred to in the text of all Senior Lien Bonds of any series delivered after the date of the adoption of such Supplemental Senior Lien Trust Indenture and of Senior Lien Bonds issued in exchange therefor or in place thereof; (vii) to modify, amend or supplement the Senior Lien Trust Indenture or any Supplemental Senior Lien Trust Indenture in such manner as to permit, if presented, the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or under any state Blue Sky Law; or (viii) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Senior Lien Trust Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Department contained in the Senior Lien Trust Indenture.

Amendment of Indenture with Consent of Bondholders

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

THE JUNIOR LIEN TRUST INDENTURE

General

Certain provisions of the Junior Lien Trust Indenture, which includes the Master Indenture and the Sixth Supplement, are summarized below. Reference should be made to the Junior Lien Trust Indenture, a copy of which may be obtained from the Department, for a full and complete statement of its provisions.

Funds and Accounts

The following Funds have been established under the Master Indenture: Acquisition Fund; Cost of Issuance Fund; Revenue Fund; Interest Fund; Principal Fund; Special Redemption Fund; Residual Revenues Fund; Expense Fund; Credit Support Fund (currently not in use); and Reserve Fund (currently not in use).

The Series Supplements create within each Fund an account relating to each series of the Obligations, including the Series 2020 Bonds, unless otherwise provided in a Series Supplement. The accounts so created do not grant a priority of one Series of Obligations over that of any other Series of Obligations, but are for accounting purposes only.

Acquisition Fund

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

Cost of Issuance Fund

Amounts credited to the Cost of Issuance Fund may be applied to pay Costs of Issuance. If any amounts remain on deposit in the Cost of Issuance Fund 180 days after the date of issue of the Series 2020 Bonds, such amounts shall be transferred to the Acquisition Fund.

Revenue Fund

All Revenues are required to be deposited into the Revenue Fund promptly upon receipt by the Department. In order for funds to be received as Revenues under the Junior Lien Trust Indenture, they must first be determined to be Surplus Revenues under the Senior Lien Trust Indenture.

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

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

all related Series of Obligations becoming subject to scheduled mandatory redemption on such redemption date;

- (c) third, to the related Account in the Expense Fund, an amount sufficient to pay, when due (and to pay any amounts which are overdue) (i) the Bond Insurance premium and other insurance policy premiums as specified in the related Series Supplement, other than such premiums which are payable from the Cost of Issuance Fund; (ii) the Credit Support Fee as specified in the related Series Supplement, other than such fees that are payable from the Cost of Issuance Fund; (iii) the Trustee's Fee for such Series; (iv) the Administrative Fee, if any, for such Series; (v) any other fees relating to a Series of Obligations as set forth in the related Series Supplement; and (vi) amounts required to pay for rebate or other yield calculations and to pay for an annual audit of the Obligations of the related Series, to the extent provided in a Series Supplement; but in no event in excess of the maximum amount or amounts specified in the Series Supplements applicable to the Obligations then Outstanding;
- (d) fourth, to the related Account in the Reserve Fund, the amount required, if any, to restore the amount on deposit therein to the Reserve Fund Requirement for such Series of Obligations;
- (e) fifth, to the extent provided in a Series Supplement, to the related Account in the Special Redemption Fund to pay the Redemption Price of the Obligations of the related Series subject to unscheduled mandatory redemption or subject to optional redemption;
- (f) sixth, to the related Account in the Credit Support Fund to the extent provided in a Series Supplement to reimburse the Bond Insurer or Credit Provider for amounts advanced under the related Bond Insurance or Credit Support plus interest thereon and any other amounts payable to the Bond Insurer or Credit Provider pursuant to the related Series Supplement;
- (g) seventh, subject to limitations on Department Expenses, to the Expense Fund to pay Department Expenses which the Department directs pursuant to a Letter of Instructions;
- (h) eighth, to any Account within the Acquisition Fund to finance the making, acquisition or refinancing of Mortgage Loans or Department Loans, which the Department directs pursuant to a Letter of Instructions to be so transferred or which is required to be so transferred by a Series Supplement applicable to a Series of Obligations; and
- (i) finally, to the related Account in the Residual Revenues Fund, the portion, if any, of the amount remaining in the Revenue Fund on each March 1, September 1 or other redemption date after the forgoing transfers, which the Department directs by a Letter of Instructions to be so transferred or which is required to be so transferred by the Series Supplement applicable to the related Series of Obligations then Outstanding.

Interest Fund and Principal Fund

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

Special Redemption Fund

Amounts in the Special Redemption Fund are required to be applied by the Trustee to pay the redemption price of the Obligations subject to redemption (other than by scheduled mandatory redemption), as determined in a Series Supplement and to the extent applicable, in a Letter of Instructions accompanied by a Cashflow Certificate or, at the direction of the Department in a Letter of Instructions accompanied by

a Cashflow Certificate, may be transferred to the Revenue Fund if notice of redemption has not been given or such amounts have not been committed to the purchase of Obligations.

The Trustee, at any time at the direction of the Department, is required to apply amounts available in the Principal Fund or the Special Redemption Fund to pay the purchase price of the Series 2020 Bonds which the Department may purchase at a price (excluding accrued interest but including any brokerage or other charges) not exceeding the applicable redemption price of such Obligations.

Expense Fund

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

Residual Revenues Fund

During such time as the Department is not meeting the Junior Lien Asset Test, amounts in the Residual Revenues Fund are required to be retained in the Residual Revenues Fund or transferred to the Acquisition Fund or the Special Redemption Fund, as directed by a Letter of Instructions from the Department accompanied by a Cashflow Certificate or, in the absence of such instructions, as may be required by the applicable Series Supplements. Pursuant to the 2020 Series Supplement on each March 1 and September 1, amounts in the Series 2020 Residual Revenues Account are required to be transferred to the Series 2020 Special Redemption Account to be applied to the redemption of Series 2020 Bonds from (i) excess Revenues and (ii) amounts representing principal payments on the Senior Lien Mortgage Loans. See "THE SERIES 2020 BONDS - Redemption Provisions."

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

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

Withdrawals from Funds to Pay Debt Service

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

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

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

Investments

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

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

Events of Default

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

that a condition of gross fiscal mismanagement exists in the Department pursuant to Section 2104.021 of the Texas Government Code and the proclamation by the Governor that the State Conservatorship Board is to act as conservator of the Department.

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

- (a) to pay the reasonable and proper charges, expenses and liabilities of the Trustee;
- (b) to pay the interest and principal then due on the Obligations, as follows:
 - (i) unless the principal of all the Obligations has become or has been declared due and payable, to the payment to the persons entitled thereto of: first, all installments of interest then due, in order of maturity, and, if the amount available is not sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts

due thereon, without any discrimination or preference; and second, the unpaid principal or redemption price of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all the Obligations due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, without any discrimination or preference; and

- (ii) if the principal of all the Obligations has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest or of any Obligation over any other Obligation ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference;
- (c) to reimburse any Bond Insurer or Credit Provider for the affected Series; provided that the Bond Insurer and Credit Provider for a Series of Obligations may be reimbursed only from the portion of the Trust Estate related to such Series and not from any portion of the Trust Estate for a Series with respect to which such entity is not providing a policy of Bond Insurance or Credit Support, as applicable, and if, after application of the portion of the Trust Estate related to such Series, there are monies remaining owing to any Bond Insurer or Credit Provider, all Bond Insurers and Credit Providers shall be reimbursed out of the remaining Trust Estate on a pro rata basis based on the ratio of the amount due and payable to each Bond Insurer or Credit Provider to the amount due and payable to all Bond Insurers and Credit Providers;
- (d) to pay any other amounts the Department is obligated to pay under the Series Supplement relating to a specific Series of Obligations; and
- (e) to pay the amounts required for reasonable and necessary Department Expenses.

Trustee

The Bank of New York Mellon Trust Company, N.A. has been appointed the Trustee under the Junior Lien Trust Indenture and also serves as Senior Lien Indenture Trustee for the Senior Lien Bonds issued under the Senior Lien Trust Indenture.

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

terms and which is authorized by law to perform all the duties imposed on it by the Junior Lien Trust Indenture.

Depositories

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

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

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

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

Supplemental Indentures without Consent of Bondholders

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be executed and delivered by the Department and the Trustee, with the consent of each Bond Insurer and Credit Provider so long as the applicable Bond Insurance or Credit Support is in effect and such Bond Insurer or Credit Provider is not in default in its payment obligations thereunder, without the consent of any owners of any Obligations: (i) to authorize Obligations of a Series and to specify the matters relative to such Obligations that are not contrary to or inconsistent with the Junior Lien Trust Indenture; (ii) to provide for the issuance of Subordinated Obligations; (iii) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Junior Lien Trust Indenture; (iv) to insert such provisions clarifying matters or questions arising under the Junior Lien Trust Indenture as are necessary or desirable and are not contrary to or inconsistent with the Junior Lien Trust Indenture as theretofore in effect; (v) to grant to or confer upon the Trustee for the benefit of the owners of the Obligations any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Trustee; (vi) to close the Junior Lien Trust Indenture against, or provide limitations or restrictions on, the delivery of Obligations or the issuance of other evidences of indebtedness; (vii) to add to the covenants of the Department in the Junior Lien Trust Indenture other covenants which are not inconsistent therewith; (viii) to add to the limitations and restrictions in the Junior Lien Trust Indenture other limitations and restrictions to be observed by the Department which are not inconsistent with the Junior Lien Trust Indenture; (ix) to surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Junior Lien Trust Indenture that is not inconsistent with the Junior Lien Trust Indenture; (x) to confirm the subjection to any lien or pledge created by the Junior Lien Trust Indenture of the Trust Estate or any other moneys; (xi) to modify any of the provisions of the Junior Lien Trust Indenture in any other respect, effective only after all Obligations of any Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding; (xii) to amend the Junior Lien Trust Indenture

to permit its qualification under the Trust Indenture Act of 1939 or any state blue sky law; (xiii) to provide a correction to any provision of the Junior Lien Trust Indenture which shall be determined in a Counsel's Opinion to be necessary to avoid the exclusion of the Obligations from the treatment afforded by Section 103 of the 1954 Code or the 1986 Code, as applicable, provided, however, that no such correction shall impair in any material manner the rights or remedies of owners of the Obligations or the security for the Obligations afforded by the Junior Lien Trust Indenture; (xiv) to add to the definition of Investment Securities in accordance with the provisions of such definition; (xv) to comply with the requirements of a Rating Agency in order to improve or maintain the rating by such Rating Agency then in effect with respect to the Obligations; (xvi) to make any other change in the Junior Lien Trust Indenture which does not, in the opinion of the Trustee, materially and adversely affect the rights of the owners of the Obligations, (xvii) to evidence compliance with any law or regulations or rule of the Securities and Exchange Commission, the Municipal Securities Rulemaking Board or other appropriate organization or entity relating to or dealing secondary market disclosure with respect to the Obligations or (xviii) to provide for any necessary provisions as a result of the discharge of the Senior Lien Trust Indenture.

Amendment of Junior Lien Trust Indenture with Consent of Bondholders

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

Defeasance

If the Department shall pay irrevocably or cause to be paid irrevocably, or there shall otherwise be paid, to the owners of all Obligations the principal amount or Redemption Price thereof and the interest due or to become due thereon, at the times and in the manner stipulated therein and in the Junior Lien Trust Indenture, and to the Trustee, the Paying Agent, any Bond Depository and the Depository all of their respective fees and expenses due, and all Obligations theretofore authenticated and delivered have been delivered to the Trustee for cancellation, all amounts due and owing due in relation to the Obligations or the Bond Insurance or Credit Support to each relevant Bond Insurer and Credit Provider, and the Trustee and each relevant Bond Insurer and Credit Provider shall have received an opinion (in form and substance satisfactory to the related Bond Insurer and Credit Provider) of counsel experienced in bankruptcy matters and satisfactory to the Trustee and each relevant Bond Insurer and Credit Provider to the effect that the application of such amounts to the redemption or purchase of the Obligations would not constitute an

avoidable preference under applicable provisions of the bankruptcy laws of the United States, then the pledge of the trust estate under the Junior Lien Trust Indenture and all covenants, agreements and other obligations of the Department to the Trustee and the owners of Obligations, shall thereupon cease, terminate and become void and be discharged and satisfied. When the lien, benefit or security created over the trust estate has been discharged and satisfied, then the pledge of the trust estate under the Indenture and all covenants, agreements and other obligations of the Department to the Trustee and the owners of any Obligations shall thereupon cease, terminate and become void and be discharged and satisfied.

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

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

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