

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, as described herein, under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, (a)(i) assuming compliance with certain conditions imposed by applicable Federal tax laws as described herein, interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to applicable Federal tax law, and (ii) interest on the Offered Bonds is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended (the "Code"), with respect to individuals and corporations, and (b) the Offered Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Offered Bonds for certain owners thereof, and certain requirements of the Code must be satisfied after the date of issuance of the Offered Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law, all as described herein under the heading "TAX MATTERS."

**\$102,500,000**  
**PUERTO RICO HOUSING FINANCE AUTHORITY**  
**Home Mortgage Revenue Bonds (Mortgage-Backed Securities)**  
**2003 Series A (AMT)**

Dated: May 1, 2003

Due: As shown on inside cover page

Puerto Rico Housing Finance Authority (the "Authority") is issuing its Home Mortgage Revenue Bonds (Mortgage-Backed Certificates), 2003 Series A (the "Offered Bonds"; the Offered Bonds, together with all obligations previously issued and to be issued under the Indenture described herein, are referred to as the "Bonds") under a Trust Indenture, dated as of August 1, 2001, as amended, and a Second Supplemental Indenture, dated as of April 1, 2003 (collectively, the "Indenture"), each between the Authority and Banco Popular de Puerto Rico, San Juan, Puerto Rico, as trustee (the "Trustee"), to provide funds for a program under which the Authority purchases, and transfers to the Trustee to be held under the Indenture, mortgage-backed securities guaranteed by the Government National Mortgage Association, Fannie Mae or the Federal Home Loan Mortgage Corporation (collectively, the "Mortgage Certificates"). The Mortgage Certificates will be backed by pools of mortgage loans (the "Mortgage Loans") made by participating lending institutions to low and moderate income families to finance the purchase of qualified single family residential housing in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico").

The Offered Bonds will be issued only in book-entry form in denominations of \$5,000 stated principal amount or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, acting as Securities Depository for the Offered Bonds, to which payments of principal and interest will be made. Beneficial Owners of Offered Bonds will not receive certificates representing their ownership of Offered Bonds. See "DESCRIPTION OF THE OFFERED BONDS — Book-Entry Only" in this Official Statement.

The Offered Bonds will bear interest from their dated date at the per annum rates set forth on the inside cover page for each maturity, payable December 1, 2003, and thereafter on each June 1 and December 1. The Offered Bonds are payable in full on their respective stated maturity dates in the amounts set forth on the inside cover page. The Offered Bonds are subject to redemption prior to their stated maturity dates, including redemption at par, from certain sources as described herein. See "DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions" herein.

**The Offered Bonds are limited obligations of the Authority, a subsidiary of Government Development Bank for Puerto Rico and a governmental instrumentality of the Commonwealth. The principal of and redemption premium, if any, and interest on the Offered Bonds are payable solely from the proceeds of certain assets described herein, including the Mortgage Certificates to be acquired from time to time by the Trustee, certain investments and proceeds of the Offered Bonds. The Offered Bonds do not constitute a debt, obligation or pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of Government Development Bank for Puerto Rico or any other public instrumentality of the Commonwealth (other than the Authority, as set forth herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank for Puerto Rico or any other public instrumentality of the Commonwealth (other than the Authority, as set forth herein) shall be liable for the payment thereof. The Offered Bonds are not insured or guaranteed by GNMA, Fannie Mae, FHLMC or any other governmental agency or by any other person. The Authority has no taxing power.**

The Offered Bonds are offered by the Underwriters when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, O'Neill & Borges, San Juan, Puerto Rico. It is expected that the Offered Bonds in definitive form will be delivered through the facilities of DTC in New York, New York, on or about May 22, 2003.

**LEHMAN BROTHERS**

**BANC OF AMERICA SECURITIES LLC**  
**CITIGROUP**  
**MERRILL LYNCH & CO.**  
**SAMUEL RAMIREZ & CO., INC.**

**GOLDMAN, SACHS & CO.**

**JP MORGAN**  
**MORGAN STANLEY**  
**RAYMOND JAMES & ASSOCIATES, INC.**  
**UBS PAINWEBBER INC.**

**WACHOVIA BANK, NATIONAL ASSOCIATION**

April 24, 2003

## MATURITY SCHEDULE

### **\$102,500,000 Home Mortgage Revenue Bonds (Mortgage-Backed Securities), 2003 Series A (AMT)**

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#### **\$102,500,000 2003 Series A Bonds**

<u>Serial Bond Maturity (December 1)</u>	<u>Amount</u>	<u>Interest Rate</u>
2005	\$1,880,000	1.75%
2006	1,915,000	2.10
2007	1,955,000	2.55
2008	2,005,000	2.90
2009	2,065,000	3.20
2010	2,130,000	3.55
2011	2,205,000	3.80
2012	2,290,000	3.95
2013	2,380,000	4.00

\$7,500,000 4.375% Series A Term Bonds due December 1, 2017  
\$11,640,000 4.75% Series A Term Bonds due June 1, 2023  
\$4,500,000 4.75% Series A Term Bonds due December 1, 2023  
\$16,000,000 3.125% Series A PAC Term Bonds due December 1, 2033  
\$36,035,000 4.875% Series A Term Bonds due June 1, 2034  
\$8,000,000 4.875% Series A Term Bonds due December 1, 2034

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**(Accrued interest to be added)**

No dealer, broker, sales representative or other person has been authorized by Puerto Rico Housing Finance Authority or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Offered Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from Puerto Rico Housing Finance Authority, Government Development Bank for Puerto Rico and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Puerto Rico Housing Finance Authority since the date hereof.

The Underwriters have provided the following sentence and the next paragraph for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OFFERED BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## OFFICIAL STATEMENT

**\$102,500,000**

### **PUERTO RICO HOUSING FINANCE AUTHORITY Home Mortgage Revenue Bonds (Mortgage-Backed Securities), 2003 Series A**

#### INTRODUCTION

This Official Statement of Puerto Rico Housing Finance Authority (the "Authority"), which includes the cover page, the inside cover page and the Appendix, sets forth certain information in connection with the sale by the Authority of its Home Mortgage Revenue Bonds (Mortgage-Backed Securities), 2003 Series A (the "Offered Bonds"). The Offered Bonds are to be issued in the aggregate principal amount of \$102,500,000 pursuant to a resolution adopted by the Board of Directors of the Authority on April 24, 2003 and a Trust Indenture, dated as of August 1, 2001 (the "Trust Indenture"), as amended, and a Second Supplemental Indenture, dated as of April 1, 2003 (the "Second Supplemental Indenture" and, together with the Trust Indenture, as amended and supplemented, the "Indenture"), each between the Authority and Banco Popular de Puerto Rico, San Juan, Puerto Rico, as Trustee (the "Trustee"). The Offered Bonds are expected to be delivered on the date set forth on the cover page. The Authority, previously known as the Puerto Rico Housing Finance Corporation, has issued its Home Mortgage Revenue Bonds (Mortgage-Backed Securities), 2001 Series A, 2001 Series B and 2001 Series C and its Home Mortgage Revenue Notes, Series 1 (collectively, the "Outstanding Bonds and Notes"), each under the Trust Indenture. The Trust Indenture allows for the issuance of additional obligations in the form of bonds or notes thereunder ("Additional Bonds" and, together with the Outstanding Bonds and Notes and the Offered Bonds, the "Bonds") secured under the Indenture on a parity with the Offered Bonds.

The Authority is a subsidiary of Government Development Bank for Puerto Rico ("Government Development Bank") and a governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") with responsibility for financing the construction, reconstruction, improvement, alteration and repair of decent, safe and sanitary dwellings for persons of limited income. Pursuant to statutes approved by the Legislature of Puerto Rico in 2001 and 2002, the entity previously known as the Puerto Rico Housing Finance Corporation was renamed as the Puerto Rico Housing Finance Authority. The Authority is authorized to make loans to mortgagors of single family residential housing qualifying as persons and families of limited income and to issue and sell notes and bonds to finance such activities.

The Authority will issue the Offered Bonds to provide funds for the acquisition of mortgage-backed certificates issued by the Government National Mortgage Association, Fannie Mae and the Federal Home Loan Mortgage Corporation ("GNMA" and "GNMA Certificates," "Fannie Mae" and "Fannie Mae Certificates," and "FHLMC" and "FHLMC Certificates," respectively, and, collectively, the "Mortgage Certificates") backed by single family homeownership mortgage loans (the "Mortgage Loans") made to persons and families of low and moderate income for the acquisition of homeownership properties located in Puerto Rico (the "Program"). These properties are expected to consist of existing housing units and newly constructed housing units throughout Puerto Rico.

All Mortgage Loans and the mortgagors to be provided with such financing (the "Mortgagors") must meet the eligibility requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Authority has contracted with qualified Mortgage Lenders to originate qualified Mortgage Loans to finance the purchase of such housing units. By the date of delivery of the Offered Bonds each Mortgage Lender will have entered into a Mortgage Origination and Servicing Agreement with the Authority (a "Mortgage Origination Agreement") and will be required to be, or have a contractual understanding with, an approved originator and servicer for GNMA, Fannie Mae or FHLMC, as applicable. Pursuant to the Mortgage Origination Agreements, a Mortgage Lender will originate and establish pools of qualified Mortgage Loans and, subject to the authorization of GNMA, Fannie Mae and FHLMC, as applicable, will issue or cause to be issued Mortgage Certificates. The individual Mortgage Loans will be assembled into pools and assigned to GNMA, Fannie Mae

or FHLMC, as applicable, upon the issuance of the Mortgage Certificates with respect thereto. The Trustee will purchase the Mortgage Certificates from the Mortgage Lenders, on behalf of the Authority, and hold the same under the Indenture as security for the Bonds. Certain funds for the purchase of Mortgage Certificates will be reserved for specified periods of time for certain Mortgage Lenders and the balance of funds will be available to Mortgage Lenders on a first come/first served basis.

The actual rate of origination of Mortgage Loans that qualify for financing under the Program is dependent on a number of social and economic factors, including the level of interest rates, which are not within the control of the Authority. The Authority, in the form of its predecessor entities, the Puerto Rico Housing Finance Corporation and the Puerto Rico Housing Bank and Finance Agency, has undertaken single family mortgage finance programs in the past which in certain instances have resulted in sizeable redemptions of bonds from unexpended bond proceeds. The inability of the Mortgage Lenders to deliver Mortgage Certificates to the Trustee in the amounts contemplated in connection with the issuance of the Offered Bonds would result in the special redemption of the Offered Bonds, without premium, from moneys in the Acquisition Fund not used by the Trustee to acquire Mortgage Certificates. See “DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions — Special Redemption.” The most recent home mortgage lending program of the Authority, financed by the issuance under the Indenture of the Outstanding Bonds and Notes in 2001, with original lendable proceeds of \$102,075,000, has resulted in the lending of all of such lendable proceeds for qualified mortgage loans.

The principal of and redemption premium, if any, and interest on the Offered Bonds are limited obligations of the Authority, payable solely under the Indenture from the proceeds of certain assets described herein, including the Mortgage Certificates to be acquired from time to time by the Trustee, certain investments and proceeds of the Offered Bonds. **The Offered Bonds do not constitute a debt, obligation or pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority, as set forth herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority, as set forth herein) shall be liable for the payment thereof. The Offered Bonds are not insured or guaranteed by GNMA, Fannie Mae or FHLMC or any other governmental agency or by any other person. The Authority has no taxing power.**

Brief descriptions of the Authority, the Program, the sources of payment and security for the Offered Bonds, the Offered Bonds, the Indenture and certain Program documents are included hereafter in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and the Program documents are qualified in their entirety by references to each such document. References herein to the Offered Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture, and the information with respect thereto included in the aforesaid documents. Copies of the aforesaid documents are available for inspection at the offices of the Authority.

Capitalized terms not defined elsewhere in this Official Statement are defined under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions” herein.

## THE AUTHORITY

The Authority is a subsidiary of Government Development Bank and an independent governmental instrumentality of the Commonwealth. Pursuant to Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, Government Development Bank was established with the power to create subsidiary corporations. On November 16, 1977, the Board of Directors of Government Development Bank approved Resolution No. 4023 (the “Enabling Resolution”) creating the Puerto Rico Housing Finance Corporation (“PRHFC”) as a subsidiary corporation of Government Development Bank. Pursuant to Act No. 103 of the Legislature of Puerto Rico, approved August 11, 2001, as amended by Act No. 107 of the Legislature of Puerto Rico, approved July 31, 2002, (i) PRHFC was renamed the Puerto Rico Housing Finance Authority, (ii) the Puerto Rico Housing Bank and Finance Agency (an entity that was created in 1961 and most recently acted as a constituent entity within the Housing Department of the Commonwealth) was dissolved and

all of its powers and functions were transferred to the Authority, (iii) the membership of the Board of Directors of the Authority was set forth, and (iv) the Board of Directors of Government Development Bank was given overriding power, pursuant to the Enabling Resolution, to set forth and amend the powers and duties of the Authority. The Authority is authorized to issue its notes and bonds to achieve its corporate purposes and to lend money to any person, firm, corporation or other organization for the purpose of developing the economy of Puerto Rico.

As provided by Act No. 103, as amended by Act No. 107 (together with Act No. 17, herein collectively referred to as the “Act”), the Board of Directors of the Authority consists of two *ex officio* members consisting of the Secretary of Housing (as chair) and the President of the Board of Directors of Government Development Bank, and five (5) additional members appointed by the Governor, three (3) of which are to be members of the Board of Directors of Government Development Bank and two (2) of which are to be private sector members.

The principal officers of the Authority are the following:

*President.* Héctor Méndez-Vázquez, President of Government Development Bank for Puerto Rico (“Government Development Bank” or “GDB”), took office on July 1, 2002. At the time of his appointment, he was Executive Vice President and Treasurer of GDB, a position he had held since February 2001. He obtained a Bachelor’s degree in Business Administration with a major in Accounting and Management from the University of Puerto Rico, and a Master’s degree in Finance and International Trade from Inter American University of Puerto Rico. He is licensed as a Certified Trading Advisor by the Commodity Futures Trading Commission and as a Financial Advisor by the Puerto Rico Commissioner of Financial Institutions. He has vast experience in securities arbitrage, rate risk management, and future swaps and options. He began his professional career with Chase Manhattan Bank in Puerto Rico in 1974 as an internal auditor. In 1977, he joined Banco Central Hispano Puerto Rico, where he occupied several management positions, including Executive Vice President and member of the Board of Directors.

*Senior Vice President and Executive Director.* José R. Cestero. Mr. Cestero was appointed Executive Director on January 22, 2001. A graduate of Boston University, he worked for four years in the commercial bank industry. In 1997, he earned a Masters Degree in Business Administration with concentration in finance and marketing from Indiana University. Until December 2000, Mr. Cestero worked as Advisor in Economic Affairs (including finance, budget, economic development and housing) for the former mayor of San Juan, and now Governor of Puerto Rico, Hon. Sila María Calderón.

The Authority’s mailing address is 606 Barbosa Avenue, Rio Piedras, Puerto Rico 00936.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The Bonds will be limited obligations of the Authority, payable solely from the Trust Estate referred to below. The Bonds will not constitute a debt, obligation or pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority, as set forth herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality (other than the Authority, as set forth herein) shall be liable for the payment of the principal of or the redemption premium, if any, or interest on the Bonds. The Bonds are not insured or guaranteed by GNMA, Fannie Mae or FHLMC or any other governmental agency or by any other person. The Authority has no taxing power.

### **Trust Estate**

Pursuant to the Indenture, the Bonds, including the Offered Bonds, are secured by an assignment and pledge of the following assets constituting the Trust Estate:

(i) all moneys and securities in the Funds and Accounts created under the Indenture (other than amounts on deposit in the Rebate Fund or otherwise owing to the United States pursuant to the Code), including the interest thereon and any other income derived therefrom, and including the moneys, securities and funds and all other rights of every name and nature from time to time hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security under the Indenture to the Trustee; and

(ii) all rights, title and interest of the Authority in and to the Mortgage Certificates granted to the Trustee under the Indenture (other than amounts owing to the United States pursuant to the Code and other than accrued interest on Mortgage Certificates which is not purchased from amounts held under the Indenture), including, but without limiting the generality of the foregoing, the present and continuing right to do any and all things which the Authority is or may become entitled to do under the Mortgage Certificates.

### **Mortgage Certificates**

**General.** No Mortgage Loans may become a part of the Trust Estate unless pooled into Mortgage Certificates. The Authority expects that the majority of the Mortgage Certificates that will be purchased for inclusion into the Trust Estate will be GNMA Certificates, but the Authority will purchase Fannie Mae Certificates or FHLMC Certificates if benefits are thereby provided to the underlying Program.

**GNMA.** GNMA is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended, to guarantee the timely payment of the principal of and interest on securities which are based on and backed by, among other things, a pool of mortgage loans insured by the Federal Housing Administration (“FHA”) under the National Housing Act, or guaranteed by the United States Department of Veterans Affairs (“USDVA”) under the Serviceman’s Readjustment Act of 1944, as amended, or insured by the Rural Development unit (“RD”) of the United States Department of Agriculture (successor to the Farmers Home Administration). Said Section 306(g) further provides that “[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under said Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Mortgage Lenders are authorized to be made by GNMA and “would constitute general obligations of the United States backed by its full faith and credit.”

GNMA, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury Department (the “Treasury”) in an amount outstanding at any one time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Certificates. The Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development (“HUD”) that the Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty.

GNMA will warrant to the Trustee, as the holder of the GNMA Certificates, that, in the event GNMA is called upon at any time to make good its guaranty of the payment of principal and interest on any GNMA Certificate, it will, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury for a loan or loans in amounts sufficient to make such payment.

**GNMA Certificates.** The summary of the Program and GNMA Certificates and other documents referred to herein does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA I and GNMA II Mortgage-Backed Securities Guides (the “Guide”) and to the GNMA Certificates and other documents for full and complete statements of their provisions.

In order to issue the GNMA Certificates, an originator of GNMA Certificates (the “GNMA Originator”) must first apply to and receive from GNMA a commitment to guarantee securities. A GNMA Commitment authorizes the GNMA Originator to issue GNMA Certificates up to an amount which does not exceed the stated amount of the GNMA commitment during a one-year period following the date of the commitment. The GNMA Originator is required to pay the application fee to GNMA for such commitment.

The amount of commitments to guarantee GNMA Certificates that GNMA can approve in any federal fiscal year is limited by statute and administrative procedures. The Authority is eligible to issue GNMA Certificates.

The issuance of each GNMA Certificate is subject to the following conditions, among others: (i) the origination by the GNMA Originator of mortgages in a minimum aggregate principal amount at least equal to the minimum size permitted by GNMA for each GNMA Certificate (such origination being subject, among other conditions, to the availability of FHA and RD mortgage insurance and USDVA guarantees), (ii) the submission by the GNMA Originator to GNMA of certain documents required by GNMA in form and substance satisfactory to GNMA, (iii) the GNMA Originator's continued compliance, on the date of issuance of the GNMA Certificate, with all of GNMA's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the GNMA Originator's continued approval by GNMA to issue GNMA Certificates and (v) the GNMA Originator's continued ability to issue, execute and deliver the GNMA Certificate, as such ability may be affected by the GNMA Originator's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Certificate by the GNMA Originator is subject to the condition that GNMA must have entered into a guaranty agreement with the GNMA Originator. The conditions to GNMA entering into such an agreement may vary from time to time, and there can be no assurance that the GNMA Originator will be able to satisfy all such requirements in effect at the time a GNMA Certificate is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Certificate is to be purchased by the Trustee.

There are two GNMA Mortgage-Backed Certificate programs, GNMA I and GNMA II. The principal differences between the two programs have to do with the minimum mortgage pool size established by GNMA, the means of payment of principal of and interest on the GNMA Certificates to the holders thereof and the use of a central paying and transfer agent (the "CPTA") in GNMA II. In GNMA I, the issuer of GNMA Certificates makes separate payments, by the fifteenth day of each month, directly to each owner of securities for each of the securities held. In GNMA II, the issuer of GNMA Certificates deposits funds with the CPTA and the CPTA makes one consolidated payment by the twentieth day of each month to each securities owner for all of such owner's holdings on GNMA Certificates under the GNMA II program. Payment of the first thirty days' interest and principal will be made on the fifteenth day of the month following the month of issuance.

Each GNMA Certificate will be a "fully-modified pass-through" security (guaranteed by GNMA) which will require the GNMA Originators to pass through to the Trustee the regular monthly payments on the underlying Mortgage Loans (less the Servicing Fees), whether or not the GNMA Originators receive such payments from the Mortgagors on the underlying Mortgage Loans, plus any prepayments of principal of the Mortgage Loans received by the GNMA Originators. Upon issuance of each GNMA Certificate and the purchase by the Trustee, GNMA will guarantee to the Trustee as holder of the GNMA Certificate the timely payment of principal of and interest on the GNMA Certificate.

The dollar amount of commitments to guarantee securities that GNMA can approve and the dollar amount that FHA, RD and USDVA can issue or guarantee in any Federal fiscal year are limited by statute and administrative procedures. If an appropriations act is not passed in any Federal fiscal year or if GNMA, FHA or USDVA reach the limits of their authority, or if GNMA, in its sole discretion, or the Federal government alters or amends the GNMA Mortgage-Backed Securities Program in such a way as to prevent the GNMA Originators from originating Mortgage Loans prior to the end of the delivery period, the GNMA Originators might not be able to originate such Mortgage Loans or issue GNMA Certificates in the anticipated principal amount. The failure to originate Mortgage Loans or the inability of the GNMA Originators to deliver GNMA Certificates in the anticipated amount could result in the redemption of Offered Bonds. See "THE OFFERED BONDS — Redemption Provisions — Special Redemption."

**Servicing of the Mortgage Loans.** The GNMA Originators will be responsible for servicing and otherwise administering the Mortgage Loans in accordance with generally accepted practices of the mortgage banking industry and the Guide. The monthly remuneration of the GNMA Originator for its servicing and administrative functions and the guaranty fee charged by GNMA are based on the unpaid principal amount of the GNMA Certificates outstanding. In compliance with GNMA regulations and policies, the total of these

servicing and guaranty fees equal 0.50% per annum, calculated on the principal balance of each GNMA Certificate outstanding on the last day of the month preceding such calculation. Each GNMA Certificate carries an interest rate that is fixed at 0.50% per annum below the interest rate on the Mortgage Loans because the servicing and guaranty fee is deducted from payment on the Mortgage Loans before such payments are forwarded to the Trustee.

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

The GNMA Originators are required to advise GNMA in advance of any impending default on scheduled payments so that GNMA as guarantor will be able to continue such payments as scheduled on the fifteenth day of each month. If, however, such payments are not received as scheduled, the Trustee has recourse directly to GNMA.

**Payment of Principal of and Interest on the GNMA Certificates.** Each installment on a GNMA Certificate is required to be applied first to interest and then in reduction of the principal balance then outstanding on the GNMA Certificate. Interest is to be paid at the specified rate on the unpaid portion of the principal of the GNMA Certificate. The amount of principal due on the GNMA Certificate shall be in an amount at least equal to the scheduled principal amortization currently due on the Mortgage Loans. However, payment of principal and interest is to be adjustable as set forth below.

Each of the monthly installments on a GNMA Certificate is subject to adjustment by reason of unscheduled recoveries of principal on the underlying Mortgage Loans. One such source of unscheduled recoveries of principal would be the repurchase of defective Mortgage Loans by the originating Mortgage Lender as described in “THE PROGRAM — Mortgage Loans.” The proceeds of such repurchases would be passed through to the GNMA Certificateholder as Principal Recoveries. In any event, each holder of a GNMA Certificate is entitled to receive monthly installments of not less than the interest due on the GNMA Certificate at the rate specified in the GNMA Certificate, together with any scheduled installments of principal, whether or not such interest or principal is collected from the Mortgagor, and any prepayment or early recovery of principal. Final payment shall be made upon surrender of the GNMA Certificate. In the event of a default by a GNMA Originator, GNMA shall have the right, by letter to such Mortgage Lender, to effect and complete the extinguishment of the GNMA Originator’s interest in the Mortgage Loans, and the Mortgage Loans shall thereupon become the absolute property of GNMA, subject only to the unsatisfied rights of the owner of the GNMA Certificate. In such event, GNMA will be successor in all respects to such GNMA Originator with respect to the transaction and the agreements described in the Guide.

**Fannie Mae Certificates.** Fannie Mae is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act. It is the nation’s largest supplier of residential mortgage funds. Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and was transformed into a stockholder owned and privately managed corporation by legislation enacted in 1968.

Fannie Mae provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase home mortgage loans from many capital markets investors that may not ordinarily invest in mortgages, thereby expanding the total amount of funds available for housing. Operating nationwide, Fannie Mae helps to redistribute mortgage funds from capital-surplus to capital-short areas. Although the Secretary of the Treasury of the United States has discretionary authority to lend funds to Fannie Mae at any time, neither the United States nor any agency thereof is obligated to finance Fannie Mae’s operations or to assist Fannie Mae in any other manner.

Each Fannie Mae Certificate will be backed by a pool of mortgage loans which may consist of FHA loans, USDVA loans or conventional loans. Fannie Mae guarantees to each registered holder of a Fannie Mae Certificate that it will distribute amounts representing such Fannie Mae Certificateholder's proportionate interest in scheduled principal and interest payments, and any principal prepayments, on the mortgage loans in the pool represented by such Fannie Mae Certificate (less servicing and guarantee fees aggregating the excess of the interest on such mortgage loans over the Fannie Mae Certificate's pass-through rate), and such Fannie Mae Certificateholder's proportionate interest in the full principal amount of any foreclosed or other liquidated mortgage loan, in each case whether or not such amounts are actually received.

The obligations of Fannie Mae under its guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the full faith and credit of, the United States. If Fannie Mae were unable to satisfy such obligations, distributions to holders of Fannie Mae Certificates would consist solely of payment and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to holders of Fannie Mae Certificates would be affected by delinquent payments and defaults on such mortgage loans.

**FHLMC Certificates.** FHLMC is a corporate instrumentality of the United States created pursuant to Title III of the Emergency Home Finance Act of 1970, as amended (the "FHLMC Act"). FHLMC was established primarily for the purpose of increasing the availability of mortgage credit for the financing of needed housing. It provides an enhanced degree of liquidity for residential mortgage investments primarily by assisting in the development of secondary markets for conventional mortgages. The principal activity of FHLMC currently consists of the purchase of first lien conventional mortgage loans or participation interests in such mortgage loans and the resale of the mortgage loans so purchased in the form of mortgage securities, primarily FHLMC Certificates. All mortgage loans purchased by FHLMC must meet certain standards set forth in the FHLMC Act. FHLMC is confined to purchasing, so far as practicable, mortgage loans which it deems to be of such quality, type and class as to meet generally the purchase standards imposed by private institutional mortgage investors.

Each FHLMC Certificate will represent an undivided interest in a pool of fixed rate, first lien conventional mortgage loans. FHLMC guarantees to each registered holder of a FHLMC Certificate that it will distribute amounts representing such FHLMC Certificateholder's proportionate interest in the interest payments on the mortgage loans in the pool represented by such FHLMC Certificate (less servicing and guarantee fees aggregating the excess of the interest on such mortgage loans over the FHLMC Certificate's pass-through rate), and such FHLMC Certificateholder's proportionate interest in scheduled principal payments on such mortgage loans, in each case whether or not such amount is actually received.

The obligations of FHLMC under its guarantees are obligations solely of FHLMC and are not backed by, nor entitled to the full faith and credit of, the United States. If FHLMC were unable to satisfy such obligations, distributions to holders of FHLMC Certificates would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to holders of FHLMC Certificates would be affected by delinquent payments and defaults on such mortgage loans.

## **Investment Agreements**

All Offered Bond proceeds deposited in the Acquisition Fund on the applicable closing date, pending acquisition of Mortgage Certificates, are expected to be invested by the Authority (with an assignment thereof to the Trustee), together with amounts deposited from time to time in the Revenue Fund, Debt Service Fund, Optional Redemption Fund, Special Redemption Fund and General Fund, pursuant to one or more investment agreements. In addition, amounts attributable to the Outstanding Bonds and Notes were previously invested in investment agreements with Trinity Funding Company, LLC (collectively, the "Investment Agreements"). See "ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS AND EXPENSES."

The principal maturities of and Sinking Fund Requirements for the Offered Bonds, and the timely payment of interest on the Offered Bonds, have been established based, in part, on certain assumptions relating to rates of return on moneys in the Funds and Accounts created under the Indenture. In the event a default or termination occurs with respect to the Investment Agreements, there can be no assurance that such agreements

can be replaced with agreements providing comparable yields and terms. To the extent that such assumptions differ from actual experience, the ability of the Authority to pay the principal of and interest on the Offered Bonds when due could be adversely affected.

### **Cash Flow Statements**

The Indenture requires that a current Cash Flow Statement be on file with the Trustee which reflects any of the following events at the time such events occur: (i) upon purchase or redemption of Offered Bonds in a manner other than as set forth in the current Cash Flow Statement; (ii) prior to redeeming a Series of Bonds from amounts attributable to any other Series of Bonds that is not considered a part of the same issue as the redeemed Bonds for federal income tax purposes; (iii) upon issuance of a Series of Bonds; (iv) prior to releasing amounts to the Authority, free and clear of the lien of the Indenture, from the General Fund; (v) prior to any optional redemption of Offered Bonds at a redemption price that includes a premium unless such redemption is from sources outside of the Trust Estate; and (vi) upon exercise by the Authority of its option to sell Mortgage Certificates. Each Cash Flow Statement consists of cash flows that must demonstrate that Revenues, Principal Recoveries and other amounts expected to be available under the Indenture are expected to be sufficient in each Bond Year to pay debt service on the Offered Bonds and fees and expenses owing during such Bond Year.

### **Release of Trust Estate Assets**

The Indenture provides for the application of all Revenues, Principal Recoveries and amounts held in Funds and Accounts for the payment of debt service on Bonds, Trustee and accountant fees and expenses and Mortgage Lender servicing fee adjustments. The Indenture permits the Authority to remove from the lien of the Indenture amounts on deposit in the General Fund, and to sell Mortgage Certificates free and clear of the lien of the Indenture, upon the filing of a Cash Flow Statement with the Trustee and the written confirmation from each Rating Agency (defined at present to mean only Standard & Poor's Ratings Services, or "S&P") that the taking of such action shall not cause the outstanding ratings of the Offered Bonds to be withdrawn, downgraded or suspended (a "Rating Confirmation").

### **Additional Bonds**

The Indenture permits the issuance of Additional Bonds (including in the form of Notes) under the Indenture which will share on a parity basis with the Outstanding Bonds the security of the Indenture for payment of all Bonds. Such Additional Bonds may be issued for refunding purposes. The Indenture requires as preconditions to such issuance the receipt by the Trustee of the appropriate approving opinions of Bond Counsel, a Cash Flow Statement and a Rating Confirmation.

The Authority has in the past and may in the future issue other obligations to finance other mortgage loans for housing not financed by the Bonds or for its other corporate purposes. Such other obligations have been and will be secured separately from the Bonds.

### **Reliance on Rating Confirmations**

The Indenture contains provisions, the primary (or sole) security for which is the requirement that there be written advice delivered to the Trustee from the Rating Agencies that the taking of certain actions or the incurrence or maintenance of certain conditions will not cause the outstanding ratings of the Offered Bonds by the Rating Agencies to be withdrawn, downgraded or suspended. These provisions include the issuance of Additional Bonds, the addition of new investments to be classified as eligible "Investment Obligations" under the Indenture, the release of assets from the lien of the Indenture, the sale of Mortgage Certificates, the modification of basic assumptions used in the Cash Flow Statement, the execution of Swaps with respect to future Series of Bonds, and the incurrence of Reimbursement Obligations (as defined in the Indenture) to providers of insurance, liquidity facilities, and other credit enhancement instruments. To the extent such actions are taken or such conditions are incurred or maintained, investors in the Offered Bonds will be relying on the evaluation by the Rating Agencies for their impact on credit quality.

## DESCRIPTION OF THE OFFERED BONDS

### General

The Offered Bonds will be dated, and interest thereon will be payable on the dates, as set forth on the cover page and inside cover page. The Offered Bonds will mature on the dates and in the amounts, and will bear interest (calculated on the basis of a 360-day year consisting of twelve 30-day months) from their date to maturity (or prior redemption) at the applicable rates, as set forth on the inside cover page.

The principal maturities of and Sinking Fund Requirements for the Offered Bonds have been based upon certain assumptions relating to, among other things, the amount of Mortgage Certificates to be purchased, the amount of related expenses to be paid from the Trust Estate, and certain rates of return on amounts held under the Indenture. No prepayments on the Mortgage Loans underlying the Mortgage Certificates have been assumed to occur in structuring the principal maturities of and Sinking Fund Requirements for the Offered Bonds. The special redemption provisions of the Indenture, however, have been designed to accommodate all Principal Recoveries from the Mortgage Loans underlying the Mortgage Certificates. Such provisions are structured in order to apply all prepayments promptly to the redemption of the Offered Bonds and accommodate different prepayment levels. See "ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS AND EXPENSES."

### Redemption Provisions

**Special Redemption.** The Offered Bonds are subject to special redemption prior to maturity, in whole or in part at any time (except to the extent stated below), at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium, as follows:

(1) on and after December 1, 2003, the Offered Bonds are subject to redemption at the option of the Authority from any moneys deposited to the credit of the Special Redemption Fund from the 2003A Acquisition Account in the Acquisition Fund;

(2) The Offered Bonds are subject to mandatory redemption from Principal Recoveries received by the Authority or the Trustee and attributable to the Offered Bonds, on each interest payment date only (and to the extent in excess of \$25,000), in the following order of priority:

*first:* to redeem the Serial Bonds on a pro rata (per Outstanding principal amount of each maturity) basis in an amount equal to the product of (i) the amount of Principal Recoveries and (ii) the fraction whose numerator is the Outstanding Serial Bonds and whose denominator is the sum of the Outstanding Offered Bonds;

*second:* to redeem the Term Bonds due December 1, 2033 (the "2003 PAC Bonds") to the extent that the principal balance of the 2003 PAC Bonds shall exceed on such interest payment date the Planned Amortization Amount;

*third:* to redeem the Term Bonds which are not 2003 PAC Bonds on a pro rata (per Outstanding principal amount of each maturity) basis;

*fourth:* to redeem the Serial Bonds on a pro rata (per Outstanding principal amount of each maturity) basis; and

*fifth:* to redeem the 2003 PAC Bonds;

(3) subject to the provisions of clause (2) above, the Offered Bonds are subject to redemption at the option of the Authority from Principal Recoveries attributable to any Series of Bonds. Notwithstanding the provisions of this clause, Principal Recoveries from any source and at any time may not be applied to

redemption of the 2003 PAC Bonds in excess of the amounts described in clause (2) *second* above until all other Offered Bonds are no longer Outstanding;

(4) on and after the earlier of (A) December 1, 2003 and (B) such time as the amount held in the Acquisition Fund is less than \$1,000,000, the Offered Bonds shall be subject to mandatory redemption from any excess Revenues attributable to the Offered Bonds deposited to the credit of the Special Redemption Fund from the General Fund in accordance with the Indenture. Excess Revenues so applied to redeem the Offered Bonds shall be applied in the same order of priority as Principal Recoveries applied to redeem the Offered Bonds described in clause (2) above; and

(5) on and after the earlier of (A) December 1, 2003 and (B) such time as the amount held in the Acquisition Fund is less than \$1,000,000, the Offered Bonds shall be subject to redemption at the option of the Authority from any excess Revenues attributable to any series of Bonds other than the Offered Bonds deposited to the credit of the Special Redemption Fund from the General Fund in accordance with the Indenture.

***Application of Principal Recoveries.*** One of the requirements of the Code with respect to qualified mortgage bonds (including the Offered Bonds) is that each mortgage principal payment received more than 10 years after the date of issuance of such bonds (or, in the case of refunding bonds, the respective dates of issuance of the refunded or original bonds) may not be used to purchase additional mortgage loans, but must be used to retire or redeem such bonds not later than the close of the first semiannual period beginning after the date the principal payment is received. The redemption provisions described above are designed to permit the Authority to comply with this “10 Year Rule.” See, however, “TAX MATTERS — Proposed Federal Tax Legislation” for proposed legislation that, if adopted, would repeal the 10 Year Rule. The Cash Flow Statement delivered upon issuance of the Offered Bonds will reflect that all Principal Recoveries attributable to the Offered Bonds are at present bound by the 10 Year Rule and Principal Recoveries attributable to the balance of the Offered Bonds will be bound by the 10 Year Rule on dates certain in the future. In the event that the 10 Year Rule is repealed and the Authority receives the appropriate opinion of Bond Counsel, the Authority will not be required by such provision of federal tax law to apply such Principal Recoveries to redemption of the Offered Bonds, except as set forth above with respect to the mandatory redemption of the 2003 PAC Bonds in accordance with the schedule of Planned Amortization Amounts.

***Average Life of the 2003 PAC Bonds.*** The “Planned Amortization Amount” schedule is based upon an assumption that Principal Recoveries attributable to the Offered Bonds and received by the Authority or the Trustee are received at 75% of the prepayment model fashioned by The Bond Market Association (the “BMA Prepayment Model”) and also includes an assumed level of receipt of Revenues under the Indenture incorporating the actual interest rates on investment agreements awarded by the Authority that will generate excess Revenues. The BMA Prepayment Model represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of newly originated mortgage loans. BMA does not purport to be either an historic description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans attributable to the Offered Bonds. One hundred percent (100%) of the BMA Prepayment Model assumes a series of prepayment rates beginning with 0.2 percent per year of the then-unpaid principal balance of such mortgage loans in the first month of the life of a pool of mortgage loans and increasing by 0.2 percent per year in each month thereafter until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans, 100% of the BMA Prepayment Model assumes a constant prepayment rate of six percent per year. Percentages of the BMA Prepayment Model are calculated from such series of rates. For example, 200% of the BMA Prepayment Model assumes prepayment rates will be 0.4 percent per year in the first month, 0.8 percent per year in the second month, reaching 12% per year in month 30 and remaining constant at 12% per year thereafter.

Any redemption of the Offered Bonds from unused proceeds thereof pursuant to clause (1) under “*Special Redemption*” above shall cause each installment in the schedule of Planned Amortization Amounts to be reduced by multiplying such installment by the fraction the numerator of which is the principal amount of

the 2003 PAC Bonds so redeemed and the denominator of which is the original principal amount of 2003 PAC Bonds.

#### 2003 PAC Bond Planned Amortization Amounts

<u>Date</u>	<u>Planned Amortization Amount (Cumulative)</u>	<u>Date</u>	<u>Planned Amortization Amount (Cumulative)</u>
May 22, 2003	\$16,000,000	June 1, 2006	\$9,860,000
June 1, 2003	16,000,000	December 1, 2006	8,170,000
December 1, 2003	15,975,000	June 1, 2007	6,325,000
June 1, 2004	15,805,000	December 1, 2007	4,635,000
December 1, 2004	15,050,000	June 1, 2008	2,895,000
June 1, 2005	13,775,000	December 1, 2008	1,270,000
December 1, 2005	11,835,000	June 1, 2009	--

The weighted average life of a security refers to the average of the length of time that will elapse from the date of issuance of such security to the date each installment of principal is paid to the investor weighted by the amount of such installment. The weighted average life of the 2003 PAC Bonds will be influenced by, among other things, the timing and extent of origination of Mortgage Loans and the rates at which principal repayments are received with respect to the Mortgage Loans and excess Revenues are generated under the Indenture.

The following tables assume, among other assumptions, that (i) all lendable proceeds of the Offered Bonds will be used to acquire Mortgage Certificates, (ii) Mortgage Certificates acquired with the proceeds of the Offered Bonds will be acquired during the period from May 2003 to June 2004, (iii) all Mortgage Loans will be 30-year mortgage loans, (iv) such Mortgage Loans are prepaid at the indicated percentage of the BMA Prepayment Model, (v) investment earnings on amounts in Funds and Accounts will reflect the actual rates of interest on the investment agreements awarded by the Authority, (vi) all scheduled principal and interest payments are timely received, (vii) no redemptions of the Offered Bonds are made from sources attributable to any other Bonds, and (ix) Principal Recoveries and excess Revenues are applied in accordance with the requirements of clauses (2) and (4) under the caption "DESCRIPTION OF THE OFFERED BONDS - Redemption Provisions - *Special Redemption*". Based on the foregoing and other assumptions, some or all of which are unlikely to reflect actual experience, the following table indicates the projected weighted average lives of the 2003 PAC Bonds.

#### Projected Weighted Average Lives (In Years) of 2003 PAC Bonds (Assuming Full Origination)

<u>Prepayment</u>	<u>PAC Bonds due December 1, 2033</u>	<u>First Redemption Date</u>	<u>Last Redemption Date or Maturity Date</u>
0% BMA	13.7	12/1/04	12/1/24
25% BMA	6.8	12/1/03	12/1/15
50% BMA	4.7	12/1/03	6/1/11
75% BMA	3.8	12/1/03	6/1/09
100% BMA	3.8	12/1/03	6/1/09
125% BMA	3.8	12/1/03	6/1/09
150% BMA	3.8	12/1/03	6/1/09
200% BMA	3.8	12/1/03	6/1/09
300% BMA	3.8	12/1/03	6/1/09
400% BMA	3.8	12/1/03	6/1/09
500% BMA	3.8	12/1/03	6/1/09

***Sinking Fund Redemption.*** The Term Bonds maturing December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2014	\$870,000	June 1, 2016	\$ 945,000
December 1, 2014	885,000	December 1, 2016	965,000
June 1, 2015	905,000	June 1, 2017	990,000
December 1, 2015	925,000	December 1, 2017†	1,015,000

†Stated maturity.

The Term Bonds maturing June 1, 2023 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2014	\$ 60,000	June 1, 2019	\$ 935,000
December 1, 2014	70,000	December 1, 2019	960,000
June 1, 2015	65,000	June 1, 2020	985,000
December 1, 2015	65,000	December 1, 2020	1,005,000
June 1, 2016	70,000	June 1, 2021	1,030,000
December 1, 2016	70,000	December 1, 2021	1,055,000
June 1, 2017	70,000	June 1, 2022	1,085,000
December 1, 2017	70,000	December 1, 2022	1,105,000
June 1, 2018	890,000	June 1, 2023†	1,135,000
December 1, 2018	915,000		

†Stated maturity.

The Term Bonds maturing December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2014	\$ 15,000	June 1, 2019	\$ 245,000
December 1, 2014	15,000	December 1, 2019	250,000
June 1, 2015	20,000	June 1, 2020	255,000
December 1, 2015	20,000	December 1, 2020	265,000
June 1, 2016	20,000	June 1, 2021	270,000
December 1, 2016	20,000	December 1, 2021	275,000
June 1, 2017	20,000	June 1, 2022	280,000
December 1, 2017	20,000	December 1, 2022	285,000
June 1, 2018	235,000	June 1, 2023	290,000
December 1, 2018	240,000	December 1, 2023†	1,460,000

†Stated maturity.

The Term Bonds maturing December 1, 2033 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2014	\$290,000	June 1, 2024	\$395,000
December 1, 2014	295,000	December 1, 2024	405,000
June 1, 2015	300,000	June 1, 2025	410,000
December 1, 2015	305,000	December 1, 2025	415,000
June 1, 2016	310,000	June 1, 2026	420,000
December 1, 2016	315,000	December 1, 2026	430,000
June 1, 2017	320,000	June 1, 2027	435,000
December 1, 2017	325,000	December 1, 2027	440,000
June 1, 2018	330,000	June 1, 2028	450,000
December 1, 2018	335,000	December 1, 2028	455,000
June 1, 2019	340,000	June 1, 2029	465,000
December 1, 2019	345,000	December 1, 2029	470,000
June 1, 2020	350,000	June 1, 2030	480,000
December 1, 2020	355,000	December 1, 2030	485,000
June 1, 2021	360,000	June 1, 2031	495,000
December 1, 2021	365,000	December 1, 2031	500,000
June 1, 2022	370,000	June 1, 2032	510,000
December 1, 2022	380,000	December 1, 2032	515,000
June 1, 2023	385,000	June 1, 2033	525,000
December 1, 2023	390,000	December 1, 2033†	535,000

†Stated maturity.

The Term Bonds maturing June 1, 2034 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2024	\$1,315,000	December 1, 2029	\$1,720,000
December 1, 2024	1,345,000	June 1, 2030	1,760,000
June 1, 2025	1,380,000	December 1, 2030	1,800,000
December 1, 2025	1,415,000	June 1, 2031	1,845,000
June 1, 2026	1,450,000	December 1, 2031	1,890,000
December 1, 2026	1,480,000	June 1, 2032	1,935,000
June 1, 2027	1,520,000	December 1, 2032	1,985,000
December 1, 2027	1,560,000	June 1, 2033	2,035,000
June 1, 2028	1,595,000	December 1, 2033	2,085,000
December 1, 2028	1,635,000	June 1, 2034†	2,610,000
June 1, 2029	1,675,000		

†Stated maturity.

The Term Bonds maturing December 1, 2034 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on the dates and in the amounts equal to the applicable Sinking Fund Requirements for the dates set forth below, subject to adjustment as described below:

<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>	<u>Redemption Date</u>	<u>Sinking Fund Requirement</u>
June 1, 2024	\$180,000	December 1, 2029	\$ 235,000
December 1, 2024	185,000	June 1, 2030	240,000
June 1, 2025	190,000	December 1, 2030	250,000
December 1, 2025	195,000	June 1, 2031	255,000
June 1, 2026	200,000	December 1, 2031	260,000
December 1, 2026	205,000	June 1, 2032	265,000
June 1, 2027	210,000	December 1, 2032	275,000
December 1, 2027	215,000	June 1, 2033	280,000
June 1, 2028	220,000	December 1, 2033	285,000
December 1, 2028	225,000	June 1, 2034	360,000
June 1, 2029	230,000	December 1, 2034†	3,040,000

†Stated maturity.

To the extent that the Offered Bonds of a maturity have been previously called for redemption in part pursuant to a special or optional redemption as described herein, the principal amount of such maturity of Offered Bonds purchased or redeemed pursuant to such special or optional redemption shall be credited, to the extent practicable, against all remaining Sinking Fund Requirements for such Offered Bonds of the applicable maturity, as directed by the Authority. In the absence of any such direction by the Authority and in the case of a partial special or optional redemption of Offered Bonds of a maturity, the principal amount of Offered Bonds purchased or redeemed shall be credited against all remaining Sinking Fund Requirements, in the proportion which the then remaining balance of each such Sinking Fund Requirement bears to the total of such Offered Bonds of such maturity then Outstanding.

The Trustee will endeavor to use the amount accumulated for each Sinking Fund Requirement, prior to the 45th day preceding the due date of such Sinking Fund Requirement, to purchase Offered Bonds subject to redemption therefrom at a price (including any brokerage and other charges) not exceeding par plus accrued interest to the date of purchase.

**Optional Redemption.** The 2003 Series A Bonds are subject to redemption, at the option of the Authority, on or after June 1, 2013, in whole at any time or in part on any interest payment date, from any moneys that may be made available to the Trustee therefor and deposited to the credit of the Optional Redemption Fund at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

The Trustee will endeavor to use the amount accumulated for each Optional Redemption, prior to the 45th day preceding such optional redemption date, to purchase Offered Bonds subject to such redemption at a price (including any brokerage and other charges) not exceeding par plus accrued interest to the date of purchase.

### **Selection of Offered Bonds for Redemption**

In the event that less than all of the Offered Bonds shall be called for redemption (other than in satisfaction of the mandatory Sinking Funding Requirements), such Offered Bonds or portions of Offered Bonds to be redeemed will be selected from among all of the then existing maturities of such Offered Bonds on a proportionate basis or as otherwise set forth in the current Cash Flow Statement accompanied by a Rating Confirmation.

If less than all of the Offered Bonds of one maturity are called for redemption, the particular Offered Bonds or portions of Offered Bonds to be redeemed will be selected by lot by the Trustee in such manner as the Trustee in its discretion may determine; provided, however, that the portion of any Offered Bonds to be redeemed must be in the principal amount at maturity equal to denominations of \$5,000 or any integral

multiple thereof, and that in selecting Offered Bonds for redemption, the Trustee must treat each Offered Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum denomination of \$5,000.

### **Notice of Redemption**

Notice of redemption may be given pursuant to the Indenture if at the time such notice is given there are sufficient moneys set aside to pay the Redemption Price of all Offered Bonds to be redeemed pursuant to such notice or may be given conditioned upon the deposit of funds on or prior to the date fixed for redemption. In the event that a conditional notice of redemption is given and such funds are not so deposited by the date fixed for redemption, a further notice shall be given rescinding the redemption. At least 30 days before the redemption date of any Offered Bonds, the Trustee will cause a notice of any such redemption, either in whole or in part, signed by the Trustee, to be mailed, first-class, postage prepaid, to all registered owners of Offered Bonds to be redeemed, at their addresses as they appear on the registration books kept by the Bond Registrar. Each such notice will set forth that Offered Bonds of the Authority are being redeemed, the date fixed for redemption, the Redemption Price to be paid and, if less than all of the Offered Bonds then Outstanding are called for redemption, the distinctive numbers and letters, if any, of such Offered Bonds to be redeemed and, in the case of Offered Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Offered Bond is to be redeemed in part only, the notice of redemption which relates to such Bond will state also that on or after the redemption date, upon surrender of such Bond, a new Bond of the same maturity, bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Bond, will be issued.

All Offered Bonds called for redemption for which notice was properly given will cease to bear interest on the specified redemption date whether or not such Offered Bonds have been surrendered for payment and will not be deemed to be Outstanding under the provisions of the Indenture.

So long as all of the Offered Bonds are immobilized in the custody of DTC, (i) notice of optional redemption of the Offered Bonds will be delivered by the Authority to the Trustee 45 days (or such lesser number of days as is acceptable to the Trustee) prior to the date set for redemption and (ii) notice of redemption of Offered Bonds will be delivered by the Trustee to DTC at least 25 days but not more than 60 days prior to the date set for redemption. DTC is responsible for notifying Depository Participants, and Depository Participants and Indirect Participants are responsible for notifying Beneficial Owners of any such redemption and neither the Trustee nor the Authority is responsible for sending notices to Beneficial Owners.

### **Book-Entry Only**

The Offered Bonds will be issued only as separate, single, authenticated, fully-registered Offered Bonds in denominations of \$5,000 or any integral multiple thereof, in the name of Cede & Co., DTC's partnership nominee ("Cede"), or other securities depository for the Offered Bonds (the "Securities Depository"), as registered owner of the Offered Bonds. For the period from the issuance of the Offered Bonds, so long as the Securities Depository or its nominee is the registered owner of all of the Offered Bonds, one bond certificate for each Series and maturity set forth on the cover page hereof in the aggregate principal amount of each such Series and maturity will be prepared and immobilized in the custody of such Securities Depository. Purchasers of such Offered Bonds (the "Beneficial Owners") will not receive physical delivery of bond certificates, except in the event that use of the book-entry system for the Offered Bonds is discontinued. By purchasing such an Offered Bond or Note, a Beneficial Owner shall be deemed to have waived the right to receive a bond certificate, except under the circumstances described under this caption "Book-Entry Only." For purposes of this Official Statement, so long as all of the Offered Bonds are immobilized in the custody of the Securities Depository, references to Bondowners or owners of such Offered Bonds (except under "TAX MATTERS") mean the Securities Depository or its nominee.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Authority and the Underwriters believe to be reliable, but the Authority and the Underwriters take no responsibility for the accuracy or completeness thereof.

DTC has advised the Authority that it 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 Authority” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC’s records in principal amounts of \$5,000 or any integral multiple thereof. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct Participants’ and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Participants with DTC are registered in the name of Cede. The deposit of Offered Bonds with DTC and their registration in the name of Cede effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Neither the Authority nor the Trustee is responsible or liable for sending transaction statements or for maintaining, supervising or reviewing such records.

The Authority and the Trustee will recognize the Securities Depository or its nominee as the owner for all purposes, including notices and voting. 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.

Redemption notices shall be sent to Cede. If less than all of a Series and maturity of Offered Bonds is 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 will consent or vote with respect to the Offered Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede’s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Offered Bonds will be made to DTC. DTC’s practice is to credit Direct Participants’ accounts on a payment date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on such payment date.

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, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee or the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants. A Beneficial Owner may desire to make arrangements with the Direct Participant or the Indirect Participant through which the beneficial ownership interest was purchased to receive a credit balance in the records of such Direct Participant or the Indirect Participant, and may desire to make arrangements with such Direct Participant or Indirect Participant to have all notices of redemption or other communications to the Direct Participant or Indirect Participant, which may affect such persons, forwarded in writing by such Direct Participant or Indirect Participant and to have notification made of all interest, principal and premium payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE OFFERED BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE OFFERED BONDS, ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE, THE SELECTION BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OFFERED BONDS, OR OTHER ACTION TAKEN BY THE SECURITIES DEPOSITORY AS BONDOWNER.

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

The Authority 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 Indenture provides for issuance of bond certificates (the “Replacement Bonds”) directly to registered owners of the Offered Bonds other than the Securities Depository or its nominee, but only in the event that (a) the Securities Depository determines not to continue to act as securities depository for such Offered Bonds; (b) the Authority has advised the Securities Depository of its determination that the Securities Depository is incapable of discharging its duties; or (c) the Authority has determined that it is in the best interest of the Authority not to continue the book-entry system of transfer or that interests of the Beneficial Owners of such Offered Bonds might be adversely affected if the book-entry system of transfer is continued. Upon occurrence of the event described in (a) or (b) above, the Authority shall either attempt to locate another Securities Depository or establish its own book-entry system. If the Authority fails to locate a successor Securities Depository or to establish its own book-entry system, the Authority shall cause to be authenticated and delivered Replacement Bonds in certificate form. In the event the Authority makes the determination noted in (b) or (c) above, and has mailed an appropriate notice to the Securities Depository, the Authority shall cause to be authenticated and delivered Replacement Bonds in certificate form. Interest on the Replacement Bonds will be payable by check or draft mailed to each registered owner of such Replacement Bond at the address of such registered owner as it appears in the bond register maintained by or on behalf of the Authority, and principal and redemption price of Replacement Bonds will be payable at the principal corporate trust office of the Trustee. Replacement Bonds will be transferable only by presentation and surrender to the Authority, or an agent of the Authority to be designated in the Replacement Bonds, together with an assignment duly executed by the owner of the Replacement Bond or by such owner’s representative in form satisfactory to the Authority, or any agent of the Authority, and containing information required by the Authority in order to effect such a transfer. For purposes of the Official Statement, at any time after

Replacement Bonds have been issued, references to Bondowners or owners mean the registered owners of such Replacement Bonds and references to such Offered Bonds mean such Replacement Bonds.

For every transfer and exchange of Replacement Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. For every exchange or transfer of a bond certificate, the Authority or the Trustee may make a charge for the expense incurred in every such exchange or registration of transfer, including a charge sufficient to reimburse either the Authority or the Trustee for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Authority and the Trustee are not required to register any change of ownership of a Bond during the 15-day period immediately preceding any date of first mailing of notice of redemption or after such Bond shall have been selected for redemption.

## **PREPAYMENT CONSIDERATIONS**

### **The Risk of Non-Origination**

Although the Program has been designed to provide to potential Mortgagors the opportunity to obtain ownership of housing units with financing at below market interest rates and while the Authority believes that sufficient qualified Mortgage Loans will be originated and pooled into Mortgage Certificates for purchase by the Trustee prior to the dates required for redemption of Offered Bonds, there can be no assurance that the foregoing will occur. The other governmental mortgage financing entities that were statutorily merged to form the Authority have undertaken single family mortgage finance programs in the past which in certain instances have resulted in sizable redemptions of bonds from unexpended bond proceeds. Among other reasons, Mortgage Loans may not be originated by Mortgage Lenders because the interest rate required to be borne by such Mortgage Loans under the Program may not be competitive in future home mortgage markets or, based on existing economic conditions, because low or moderate income families do not qualify for financing under the Program. See “DESCRIPTION OF THE PROGRAM” for other factors that may affect origination of Mortgage Loans under the Program.

### **Prepayment and Yield Considerations**

As a general matter, the prepayment experience of a pool of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage interest rates and the rate at which homeowners sell their homes or default on their mortgages. There is no readily accessible data or reliable information that could be used to indicate the historical prepayment or foreclosure experience of mortgage loans similar to the Mortgage Loans. The fact that the Mortgage Loans have been and will be granted to families of low or moderate income, should the general economic condition of Puerto Rico decline, could result in high rates of Mortgage Loan foreclosures and a corresponding increase in the rate of prepayments of the Mortgage Certificates and redemption of the Offered Bonds. Such foreclosures should not result in any losses to the Bondholders, since timely payment of principal and interest on the Mortgage Loans underlying the Mortgage Certificates is guaranteed by GNMA, Fannie Mae or FHLMC. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.” In addition, general mortgage lending rates may decline to the point that refinancing of the Mortgage Loans becomes an attractive course of action for Mortgagors, thus resulting in prepayment of the Mortgage Loans.

The prepayment of the Mortgage Certificates and any Principal Recoveries may affect the average life of the Offered Bonds by causing redemptions of the Offered Bonds prior to their stated maturities. There can be no certainty as to the rate of prepayments on the Mortgage Loans underlying the Mortgage Certificates during any period or over the life of the Offered Bonds.

## **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds with respect to the issuance of the Offered Bonds, exclusive of accrued interest (which will be deposited in the Interest Account), are expected to be as follows:

Sources of Funds:	
Offered Bond Proceeds.....	<u>\$102,500,000</u>
Total Sources of Funds.....	<u>\$102,500,000</u>
Uses of Funds:	
2003 Series A Acquisition Account Deposit .....	\$100,000,000
Capitalized Interest .....	1,361,250
Costs of Issuance .....	324,125
Underwriting Compensation.....	<u>814,625</u>
Total Uses of Funds .....	<u>\$102,500,000</u>

**ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE  
REQUIREMENTS AND EXPENSES**

The Authority expects payment of principal of and interest on Mortgage Certificates purchased with the proceeds of the Offered Bonds, together with moneys and securities held under the Indenture and the income thereon as well as other moneys available therefor, to be sufficient to pay, when due, the principal of (including Sinking Fund Requirements) and interest on all Offered Bonds as well as any fees and expenses of the Trustee and the Authority. Principal maturities of the Offered Bonds were determined on the assumption that no principal prepayments on the Mortgage Loans would be received.

The assumptions set forth below with respect to Mortgage Loans and Funds and Accounts funded with proceeds of the Offered Bonds have been used in structuring the principal maturities, including Sinking Fund Requirements, of the Offered Bonds; however, subsequent events may not correspond to such assumptions:

- (i) The newly originated Mortgage Certificates will have a rate of 4.90% and will be purchased by the Trustee at a price of 100% of their outstanding principal amount.
- (ii) The rate of interest to be borne by the newly originated Mortgage Loans will be 5.40%.
- (iii) The Trustee’s and Administrator’s annual fees will not exceed the sum of (a) .02% of the aggregate principal amount of Mortgage Certificates Outstanding and (b) \$5,500.
- (iv) Payments on the Mortgage Certificates will be received by the Trustee on the 25th day of each month.
- (v) Amounts held in the Series Acquisition Account for the Offered Bonds will be invested in an investment agreement with a qualified provider at a guaranteed rate and used to acquire Mortgage Certificates.
- (vi) Amounts held in the Revenue Fund, the Debt Service Fund, the Optional Redemption Fund, the Special Redemption Fund and the General Fund will be invested in an investment agreement with AIG Matched Funding Corp. at a guaranteed rate.
- (vii) A minimum of \$200,000 will be retained in the Revenue Fund before any transfers are made to the General Fund.
- (viii) The Authority shall receive a semi-annual fee, in advance, equal to .02% per annum of the outstanding Mortgage Certificates balance.

Any amounts deposited in the Acquisition Fund which are not used to purchase Mortgage Certificates backed by Mortgage Loans will be used to redeem Offered Bonds pursuant to the redemption provisions of the Indenture. See “DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions — Special Redemption.”

## DESCRIPTION OF THE PROGRAM

### Background

The Authority is issuing the Offered Bonds to continue a program designed to provide mortgage lending to persons and families of low and moderate income in Puerto Rico for the purchase of single family homeownership units, including condominium units. The proceeds of the 2003 Series A Bonds are expected to be lent for homeownership mortgage loans in housing units which are expected to be primarily pre-existing housing, but may also include newly-constructed housing, and may be located throughout Puerto Rico.

### General Mortgage Loan Financing

Following allocation of a portion of the proceeds of the Offered Bonds to a replacement refunding for Federal income tax purposes of amounts due on the Authority's Home Mortgage Revenue Notes, Series 1, an amount equal to \$100,000,000 is expected to be made available to Mortgage Lenders for the acquisition of Mortgage Certificates secured by Mortgage Loans to be made throughout Puerto Rico following the issuances of the Offered Bonds. These Mortgage Loans are expected to relate primarily to the purchase of existing housing in Puerto Rico by qualified borrowers (so-called "spot loans") but may at the option of the Authority relate to newly-constructed housing. As described below, Mortgage Loans may be for the acquisition of housing designed for occupancy by one homeowner family or designed or utilized for occupancy by one homeowner family and up to three additional renter families. A portion of such proceeds may be reserved for certain Mortgage Lenders (who will have paid ½ of 1% commitment fees for such reservations) and the balance will be available to purchase Mortgage Certificates on a first come/first served basis. Any Mortgage Lender which has reserved funds must satisfy such reservation before applying for first come/first served funds. The Authority has entered and will enter into Mortgage Origination Agreements (described below) with specified Mortgage Lenders for the origination of such Mortgage Loans. The Program requires that the proceeds allocable to this portion of the Program financed by the Offered Bonds must be disbursed to allow for the Trustee's purchase of the related Mortgage Certificates on or prior to June 1, 2004. After June 1, 2004, the Authority has the option of extending the delivery period or of determining that unused proceeds of the Offered Bonds will be reallocated among Mortgage Lenders, further held available for first come/first served lending or otherwise applied to a special redemption of the Offered Bonds, provided that any such extension must be the subject of a Rating Confirmation. See "DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions — Special Redemption."

### Mortgage Loans

**General.** Under the Program, the Authority will finance, through the purchase of Mortgage Certificates, Mortgage Loans made by qualified Mortgage Lenders to Mortgage Lenders for owner occupied, single-family residences. Each Mortgage Loan underlying a Mortgage Certificate must be secured by a mortgage which constitutes a valid first lien on the property financed by such Mortgage Loan. All Mortgage Loans will have had original terms of 30 years and will provide substantially level monthly payments. The Mortgage Lenders will package Mortgage Loans into pools with a minimum of \$1,000,000 aggregate principal amount, or such lesser amount as is permitted by GNMA, Fannie Mae or FHLMC, as applicable, and issue or cause to be issued Mortgage Certificates and sell such Mortgage Certificates to the Trustee.

**Qualification of Mortgage Lenders.** To qualify as a Mortgage Lender under the Program, a lending institution must (i) be a Commonwealth-approved mortgagee in good standing and be (or have a contractual relationship with) an approved issuer and servicer of Mortgage Certificates of the type proposed to be sold to the Authority, (ii) be capable of making the representations, warranties and covenants set forth in the Mortgage Origination Agreement, (iii) be qualified to do business in Puerto Rico and have an office in Puerto Rico, and (iv) have agreed to originate and service Mortgage Loans pursuant to a Mortgage Origination Agreement and the Procedural Guide. Mortgage Lenders are required to enter into Mortgage Origination Agreements with the Authority in an amount equal to the principal amount of Mortgage Loans which such Mortgage Lenders expect to originate under the Program.

***Qualification of Mortgagors and Mortgage Loans.*** The purchase price of a residence financed through a Mortgage Loan will be determined according to an amount established in conformance with the requirements of the Code and any applicable agreements with FHA, USDVA or RD. Mortgage Loans are required to be made to persons or families of low or moderate income who qualify for such financing based upon the Program income limits. In addition, the loan-to-value ratios and downpayment requirements for each Mortgage Loan shall be in accordance with the applicable regulations of GNMA, Fannie Mae or FHLMC, as applicable, for each such Mortgage Loan to qualify for securitization as a Mortgage Certificate.

The Authority has established the maximum gross income of households eligible to purchase residences financed by Mortgage Loans that qualify under the Program. Such income limits are consistent with the income limits imposed by the Code and are based on family size and the location of the residence. Such limits may be amended from time to time in compliance with the Code. Generally, such limits at present currently range from \$38,360 for units in the Arecibo area, to \$32,890 for units in the San Juan-Bayamon area, to \$25,340 for units in rural areas (with lower limits for families of one or two persons).

All amounts deposited to the credit of the Acquisition Fund must be used to finance residences for Mortgagors who: (i) intend to occupy the residence purchased with the proceeds of the Mortgage Loan as his or her principal residence; (ii) covenant that such residence will not be used in a trade or business, as an investment property or as a recreational home; (iii) have not had during the three years prior to the date their respective Mortgage Loan is executed a present ownership interest in a residence; and (iv) whose family income does not exceed the maximum income needed to qualify under the Program. See also “Loan Eligibility Requirements Imposed by the Code” below.

Each Mortgage Loan must (i) be secured by a mortgage, (ii) be evidenced by a mortgage note providing for monthly payments of principal and interest (in arrears) payable on the first day of each month, initially on the basis of a thirty year amortization, and (iii) be included by a Mortgage Lender into a pool of mortgages backing a Mortgage Certificate, to be purchased by the Trustee on behalf of the Authority pursuant to a Mortgage Origination Agreement.

***Origination of the Mortgage Loans.*** The Mortgage Lenders which have reserved Offered Bond proceeds (and paid a ½ of 1% commitment fee for such reservation) may charge an origination and discount fee of not more than 2½% of the original principal amount of a Mortgage Loan. Mortgage Lenders which have not reserved funds may charge an origination and discount fee of not more than 2% of the principal amount of a Mortgage Loan. These fees are to be collected from the Mortgagor. Insurance premiums, survey, title insurance and attorneys’ fees and other reasonable and customary charges and fees may also be charged to each Mortgagor by the Mortgage Lenders.

The Mortgage Origination Agreements further provide that if any documents delivered by a Mortgage Lender to the Authority are defective in any material respect, the Mortgage Lender shall use its best efforts to cure such defect within 60 days of notice to such Mortgage Lender of the discovery thereof. If any material defect or inaccuracy cannot be cured within such sixty day period or such shorter period, if applicable, the Mortgage Lender is required, not later than 90 days after notice to it respecting such defect or inaccuracy, to repurchase the related Mortgage Loan (or an allocable share of the Mortgage Certificate) for a price equal to the unpaid principal thereof plus accrued interest. Such repurchase proceeds will be paid to GNMA, Fannie Mae or FHLMC, as applicable, and when received by the Trustee as a Principal Recovery will be available for the payment of Offered Bonds. See “DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions.”

### **Servicing of the Mortgage Loans**

The Mortgage Lenders will be responsible for servicing the Mortgage Loans in accordance with generally accepted servicing practices of the mortgage banking industry, the Procedural Guide and the applicable guidelines of GNMA, Fannie Mae or FHLMC, as applicable. The fees of the Mortgage Lender for its servicing and administrative functions and the guaranty fees charged by GNMA, Fannie Mae and FHLMC

are based on the unpaid principal amount of the Mortgage Certificates outstanding issued or guaranteed by such entity.

### **Mortgage Origination Agreements**

Pursuant to the Mortgage Origination Agreements, the Mortgage Lenders will agree to use their best efforts to process applications from borrowers and to originate qualified Mortgage Loans in an amount equal to the commitment amount specified therein, and are required to pool, or cause to be pooled, the Mortgage Loans originated into Mortgage Certificates and to sell such securities to the Trustee.

The Mortgage Origination Agreements will contain certain warranties to be given by the Mortgage Lenders concerning each Mortgage Loan to be pooled into Mortgage Certificates. Such warranties include, among other things, that: (i) the Mortgage Loan has been made to a low or moderate income Mortgagor to finance a single family residence; (ii) the acquisition cost of the single family residence is not in excess of the applicable limitation; (iii) the Mortgage Lender has no knowledge of any material misstatement or omission in the material provided by the Mortgagor under the Mortgage Loan or by the Mortgage Lender in connection with the Mortgage Loan; (iv) the terms, covenants and conditions of each Mortgage Loan comply with the requirements of GNMA, Fannie Mae or FHLMC, as applicable; and (v) the Mortgage Lender is eligible to originate or cause to be originated Mortgage Certificates backed by Mortgage Loans.

The Trustee may, on behalf of the Authority, terminate a Mortgage Origination Agreement if a default thereunder is not cured within the time permitted thereunder. A default shall occur, among other events, if (i) any representation or warranty to the Authority by the Mortgage Lender shall be false in any material respect, (ii) the Mortgage Lender shall fail to duly observe or perform any other covenant, condition or agreement in the Mortgage Origination Agreement or the Procedural Guide to be observed or performed by it or (iii) certain acts of bankruptcy or insolvency occur. In the event of any such default, the Mortgage Lender shall hold the Authority harmless against all losses incurred by it or on its behalf.

### **Loan Eligibility Requirements Imposed by the Code**

The Code contains loan eligibility requirements that are applicable to Mortgage Loans financed with proceeds attributable to the Offered Bonds in order that interest on the Offered Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof. See “TAX MATTERS — Loan Eligibility Requirements Imposed by the Code.”

#### ***Residence Requirement***

The Code requires that each of the premises financed with proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided. In the case of a two-to-four-family residence (other than two-family residences in “targeted areas,” as defined in the Code, having borrowers whose family income does not exceed 140% of applicable family median income), the residence must have been occupied as a residence at least five years before the mortgage is executed. Certain documents adopted by the Authority that establish procedures to be followed in connection with the financing of Mortgage Loans with amounts attributable to the Offered Bonds in order to assure that interest paid on the Offered Bonds not be included in gross income for Federal income tax purposes under the Code (the “Program Documents”) require each mortgagor to submit an affidavit stating such person’s intention to occupy the premises as his principal residence within 60 days after closing of the Mortgage Loan.

#### ***First-Time Homebuyer Requirement***

The Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to mortgagors who have not had a present ownership interest in their principal residence (other than the residence being financed) during the three-year period prior to execution of the mortgage loan. Mortgagors subject to this requirement must so certify when applying to a Mortgage

Lender for a Mortgage Loan, and the Procedural Guide requires that the Mortgage Lender make a reasonable investigation to verify such certification. The Program Documents require Mortgagors subject to this requirement to provide Commonwealth income tax returns for the previous three years or other appropriate certifications to allow the Mortgage Lender to verify that no deductions or other entries have been made that would indicate any such ownership interest.

### ***New Mortgage Requirement***

The Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage loan. The Program Documents set forth procedures which require each mortgagor and the seller of the residence to certify, subject to such exceptions, that no refinancing of a prior mortgage loan is being effected.

### ***Purchase Price Limitation***

The Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas. The Program Documents set forth procedures which require each mortgagor and the seller of a residence to make certifications regarding the purchase price of such residence.

### ***Income Limitations***

The Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one-third in aggregate amount of such loans to be made without regard to any income limitations.

Applicable Federal tax law permits higher income limits for persons financing homes located in certain “high housing cost areas.” A high housing cost area is a statistical area for which the ratios of the area’s average purchase price for existing and new single family houses to the area’s median income exceed 120% of the same ratios determined on a national basis. These ratios are determined separately with respect to new and existing single family residences. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high cost areas, the mortgagor income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. *However*, the new limit cannot currently exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. Many areas of the Commonwealth qualify as high housing cost areas.

The Program Documents set forth procedures which require each borrower to certify the amount of family income. Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

### ***Requirements as to Assumptions***

The Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirement, first-time homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption. The Mortgage Loans will contain a “due on sale” clause, and the Authority will not permit the assumption of a Mortgage Loan unless it has followed the procedures outlined in the Program

Documents, which are designed to determine that these requirements have been met, and has obtained the appropriate certifications.

### ***General***

An issue of bonds is treated as meeting the loan eligibility requirements of the Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed. In determining whether 95% or more of the proceeds has been so used, the Code permits the Authority to rely on an affidavit of the mortgagor and of the seller and an examination of copies of the mortgagor's Commonwealth income tax returns for the last three years preceding the date the Mortgage Loan is executed even if the relevant information in such affidavits and income tax returns should ultimately prove to be untrue, unless the Authority or the Mortgage Lender knows or has reason to believe that such information is false.

### **Other Requirements Imposed by the Code**

#### ***Targeted Area Set-Aside***

At least 20% of the lendable proceeds of an issue of bonds must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Code) for at least one year after the date on which such funds are first available for such owner-financing (the "targeted area requirement"). The Authority has covenanted to comply with such requirements to the extent required by the Code.

#### ***Recapture Provision***

For certain mortgage loans made after December 31, 1990 from the proceeds of tax-exempt bonds issued after August 15, 1986, and for assumptions of such mortgage loans, the Code requires a payment to the United States from certain mortgagors upon sale or other disposition of their homes (the "Recapture Provision"). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a mortgagor be paid to the United States on disposition of the house (but not in excess of 50% of the gain realized by the mortgagor). The recapture amount would (i) increase over the period of ownership, with full recapture occurring if the house were sold between four and five full years after the closing of the mortgage loans and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain assisted individuals whose income is less than prescribed amounts at the time of the disposition. The Code requires an issuer to provide mortgagors with certain information regarding the Recapture Provision. The Authority has established procedures which the Authority believes will enable it to meet such recapture information requirement. The Recapture Provision is not expected to have a material adverse effect on the ability of the Authority to originate Mortgage Loans. However, any proceeds of the Offered Bonds which are not used to originate Mortgage Loans will be required by the Code to be used to redeem such Offered Bonds prior to maturity. See "DESCRIPTION OF THE OFFERED BONDS — Redemption Provisions — Special Redemption" above.

The Code provides that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.

#### ***Required Redemptions***

The Code requires redemption of certain qualified mortgage bonds issued after 1988 from unexpended proceeds required to be used to make mortgage loans that have not been used within 42 months from the date

of issuance (or the date of issuance of the original bonds in the case of refundings of unexpended proceeds), *except* for a \$250,000 *de minimis* amount. As a result, the Authority may be required by the Code to redeem the Offered Bonds from unexpended proceeds attributable to the Offered Bonds. Additionally, for bonds issued after 1988, the Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, *except* for a \$250,000 *de minimis* amount. As a result, the Authority will, to the extent required by the Code (see “TAX MATTERS – Proposed Federal Tax Litigation”), on and after future dates beginning as early as August 1, 2011, be required to redeem the Offered Bonds from repayments (including prepayments) of principal of Mortgage Loans financed with proceeds of the Offered Bonds.

### ***Compliance***

The Authority includes provisions in the Program Documents that establish procedures, including receipt of certain affidavits and warranties from Mortgage Lenders and mortgagors, in order to assure compliance with the loan eligibility requirements and other requirements that must be satisfied subsequent to the date of issuance of the Offered Bonds. The Authority has covenanted in the Indenture to do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid on the Offered Bonds shall not be included in gross income for Federal income tax purposes and, for such purpose, to adopt and maintain appropriate procedures.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The Indenture contains various definitions, covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture, to which reference is hereby made. Copies of the Indenture are available from the Authority or the Trustee.

### **Definitions (Section 101)**

The Indenture defines certain terms, including the following:

“*Account*” means any account established as described below under “Funds and Accounts.”

“*Accreted Value*” means with respect to any Discount Bond, the initial reoffering price or initial principal amount at which such Discount Bond is offered for sale to the public or sold to the initial purchaser thereof at the time of sale thereof by the Authority, without reduction to reflect underwriter’s discount or placement agent’s fees, compounded from the date of delivery of such Discount Bond semi-annually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity, less, with respect to any Discount Bond with interest payable on a current basis, any interest paid and payable during such period, plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semi-annual period in equal daily amounts, provided, however, that the calculation of Accreted Value for purposes of actions, requests, notifications, consents or direction of Bondowners under Articles VII, VIII, IX, or X of the Indenture shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case calculated as of the date of calculation).

“*Administrator*” means the Administrator appointed pursuant to the Administration Agreement, dated as of August 1, 2001, between Banco Popular de Puerto Rico and the Authority.

*“Annual Budget Requirement”* means the amounts set forth in the Annual Budget of the Authority with respect to the applicable Bond Year, in accordance with the Indenture.

*“Assumed Receipt Date”* means the assumed date or dates of receipt of payments under the Mortgage Certificates as set forth in the current Cash Flow Statement.

*“Authorized Officer”* means an authorized officer of the Authority, the Trustee or a Mortgage Lender, as the case may be, authorized to perform the act or discharge the duty required by the Indenture.

*“Bond Year”* means the period commencing on the first day of December of any year and ending on the last day of November of the following year or, if earlier, the date of final maturity of all Bonds.

*“Business Day”* means any day other than (i) a Saturday or a Sunday and (ii) any other day that is a legal holiday or a day on which the New York Stock Exchange or banking or trust institutions are authorized or obligated by law or executive order to close in the Commonwealth or New York, New York.

*“Cash Flow Statement”* means a certificate of an Authorized Officer of the Authority appending the analysis of a nationally-recognized firm experienced in the preparation of cash flows, delivered pursuant to Section 610 of the Indenture.

*“Code”* means the United States Internal Revenue Code of 1986, as amended, and the regulations thereunder.

*“Collateralization Level”* means, for purposes of clauses (c) and (d) of the definition of “Collateralization Requirements,” and except as otherwise specified by Moody’s or S&P, respectively, the higher of the Moody’s and S&P levels for over collateralization set forth in Exhibit A of the Indenture for each Investment Obligation (based upon whether it is valued in accordance with the particular Frequency of Valuation set forth in Exhibit A of the Indenture, such Frequency of Valuation to be directed to the Trustee by the Authority).

*“Collateralization Requirements”* means, for purposes of the definition of “Investment Obligations,” with respect to any agreement, that such agreement provides that:

- (a) the Trustee or a third party acting solely as agent of the Trustee, has possession of the applicable collateral;
- (b) the Trustee has a first perfected security interest in such collateral;
- (c) the market value (excluding accrued interest) of the applicable collateral is maintained at the appropriate Collateralization Level;
- (d) the failure to maintain the requisite Collateralization Level will require the Trustee to immediately liquidate the applicable collateral;
- (e) the applicable collateral is free and clear of any lien or claim of any third party; and
- (f) with respect to repurchase agreements, the term is one year or less or due on demand.

*“Commonwealth”* means the Commonwealth of Puerto Rico.

*“Costs of Issuance”* means all items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of the Bonds and the establishment of the Program, as certified to the Trustee by the Authority, including but not limited to fees and expenses of counsel and accountants, expenses of printing, reproducing documents, filing and recording fees, initial fees and

charges of the Trustee, legal and other professional services and consultation, credit ratings, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the foregoing.

*“Defaulted Interest”* means interest on any Bond that is payable on any interest payment date but not punctually paid or duly provided for.

*“Discount Bond”* means, except as otherwise stated in a Series Supplemental Indenture, any Bond or Bonds offered for sale to the public or sold to the initial purchaser thereof at the time of sale thereof by the Authority at an initial reoffering price or initial principal amount of less than ninety-seven percent (97%) of the principal amount at maturity thereof, without reduction to reflect underwriter’s discount or placement agent’s fees.

*“DTC”* means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York and its successors and assigns.

*“Eligible Residence”* means real property within Puerto Rico and improvements thereon to be financed with a Mortgage Loan satisfying the requirements set forth in the Mortgage Origination Agreements and the Procedural Guide.

*“Excess Interest”* means, with respect to any Mortgage Certificate, the interest received by the Trustee in excess of interest at the Required Mortgage Certificate Rate.

*“Fannie Mae”* means Fannie Mae (or the Federal National Mortgage Association), a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act, as amended, or any successor thereto.

*“Fannie Mae Certificate”* means a guaranteed mortgage pass-through certificate issued by Fannie Mae, the full and timely payment of principal and interest of which is guaranteed by Fannie Mae and which represents a proportional undivided ownership interest in a pool of fixed-rate mortgage loans secured by mortgages on one- to four-family residences and which is granted to the Trustee under the Indenture.

*“FHA”* means the Federal Housing Administration, a unit of the United States Department of Housing and Urban Development.

*“FHLMC”* means the Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States of America created and existing under Title III of the Emergency Home Finance Act of 1970, as amended, or any successor thereto.

*“FHLMC Certificate”* means a participation certificate under which the full and timely payment of interest and principal is guaranteed by FHLMC and which represents a proportional undivided ownership interest in a group of fixed-rate mortgage loans secured by mortgages on one- to four-family residences and which is granted to the Trustee under the Indenture.

*“GNMA”* means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development, or any successor thereto.

*“GNMA Certificate”* means a fully modified pass-through mortgage-backed certificate, the full and timely payment of principal and interest of which is guaranteed by GNMA and backed by the full faith and credit of the government of the United States of America. Each certificate represents a proportional undivided ownership interest in a pool of fixed-rate mortgage loans secured by mortgages on one- to four-family residences and which is granted to the Trustee under the Indenture.

*“Government Obligations”* means (i) direct obligations of, or obligations the payment of the principal of and the interest on which are unconditionally guaranteed by, the United States of America and (ii) if rated at

least as high as the Moody's Rating Scale and the S&P Rating Standard, bonds, debentures, participation certificates, notes or other obligations issued by any one or any combination of the following (excluding any participations therein purchased in excess of par, any interest-only strips, and any principal interests stripped by a third party unless the Trustee has received written evidence from Moody's and S&P that inclusion of such principal strips under the Indenture will not impair the outstanding ratings assigned to the Bonds by Moody's or S&P, respectively): Farm Credit Banks (Federal Land Banks, Banks for Cooperatives and Federal Intermediate Credit Banks), Federal Home Loan Banks, Export-Import Bank of the United States, Federal Financing Bank, GNMA, FNMA, FmHA (or RD) and FHLMC (but only if guaranteed as to timely payment of principal and interest by FHLMC), Resolution Funding Corp., or Financing Corp. (FICO), or Federal Housing Administration debentures.

*"Guaranty Agreement"* means one or more guaranty agreements between a Mortgage Lender and GNMA pursuant to which GNMA has agreed or will agree to guaranty Mortgage Certificates.

*"Indenture"* means the Trust Indenture, dated as of August 1, 2001, together with all Supplemental Indentures.

*"interest payment date"* means with respect to any Series of Bonds, the dates set forth for payment of interest thereon in the related Series Supplemental Indenture.

*"Investment Obligations"* means any of the following which are at the time of investment legal investments under Commonwealth law for the investment of Authority funds:

(i) (A) Government Obligations described in clause (i) of the definition thereof, or (B) if rated at least as high as the Moody's Rating Scale and the S&P Rating Standard, obligations of any state of the United States of America or of the Commonwealth or any political subdivision of such a state or of the Commonwealth, payment of which is secured by an irrevocable pledge of such Government Obligations;

(ii) (A) if rated at least as high as the Moody's Rating Scale and the S&P Rating Standard, bonds, debentures or other obligations issued by Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Federal Farm Credit System Obligations, FHLMC (if guaranteed by FHLMC as to timely payment of principal and interest), Export-Import Bank, World Bank, International Bank for Reconstruction and Development and Inter-American Development Bank, or (B) if rated at least as high as the Moody's Rating Scale and the S&P Rating Standard, bonds, debentures or other obligations issued by Fannie Mae (excluding securities which are valued greater than par on the portion of unpaid principal, or mortgage securities which represent payments of interest only);

(iii) time deposits, certificates of deposit or any other deposit with a domestic or foreign bank, trust company, national banking association, savings bank, Federal mutual savings bank, savings and loan association, Federal savings and loan association or any other institution chartered, licensed or qualified to do business by the Commonwealth or any state or under the supervision of the Office of Thrift Supervision or chartered or licensed by the U.S. Comptroller of the Currency to accept deposits in the Commonwealth or such state (as used herein, "deposits" means obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in a liquidation proceeding), which are made with an institution whose unsecured debt securities are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard;

(iv) repurchase agreements backed by or related to obligations described in (i) or (ii) above (A) with any institution whose unsecured long-term debt securities are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard (or the unsecured short-term obligations of which, if the investment is for a period of one year or less, are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard) or (B) with any corporation or other entity insured by the Securities Investors Protection Corporation that falls under the jurisdiction of the Bankruptcy Code

and which does not qualify under (A), if such repurchase agreement is in compliance with the Collateralization Requirements and matures thirty days prior to the date the amounts invested thereunder are needed for the purposes of the Indenture;

(v) investment agreements, secured or unsecured as required by the Authority, with any institution whose long-term unsecured debt securities are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard;

(vi) direct and general obligations of or obligations guaranteed by any state or the Commonwealth, municipality or political subdivision or agency thereof, which obligations are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard;

(vii) bonds, debentures, or other obligations issued by any domestic or foreign bank, trust company, national banking association, insurance company, corporation, government or governmental entity, provided, that such bonds, debentures or other obligations are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard;

(viii) commercial paper (having original maturities of not more than 365 days) rated in the highest category of Moody's and S&P for short-term obligations, but only if such institution's unsecured debt securities are rated at least as high as the Moody's Rating Scale and the S&P Rating Standard;

(ix) money market funds which invest in Government Obligations or obligations described in Section 103 of the Code and which funds have been rated at least as high as the Moody's Rating Scale and the S&P Rating Standard; and

(x) any other investment obligation described in a written direction to the Trustee from an Authorized Officer of the Authority whose inclusion in the definitions of the Indenture as evidenced in writing to the Trustee will not impair, or cause the Bonds to fail to retain, the then-existing rating assigned to the Bonds by the Rating Agencies.

"*Moody's*" means Moody's Investors Service.

"*Moody's Rating Scale*" means, with respect to Investment Obligations, and only if Moody's Investors Service shall be one of the Rating Agencies, the following:

<u>Maturity</u> <u>Investment Obligations</u>	<u>Moody's Rating</u>
Less than 1 year	P-1
1 year and greater	Aa3/P-1

"*Mortgage*" means the instrument securing a Mortgage Loan in the form required by the Procedural Guide.

"*Mortgage Certificate*" means a GNMA Certificate, a Fannie Mae Certificate or a FHLMC Certificate, as the case may be, granted to the Trustee under the Indenture. The term "outstanding Mortgage Certificates" as of any date means the Mortgage Certificates held by the Trustee other than the Mortgage Certificates that have been fully paid as of such date.

"*Mortgage Lender*" means any person entering into a Mortgage Origination Agreement.

"*Mortgage Loan*" means any mortgage loan financed by the Authority in connection with the Program under the terms of the Indenture.

“*Mortgage Note*” means the promissory note evidencing a Mortgage Loan.

“*Mortgage Origination Agreement*” means a Mortgage Loan Origination and Servicing Agreement among the Authority, the Trustee and a Mortgage Lender.

“*Mortgagor*” means the obligor under a Mortgage Note who has acquired an Eligible Residence subject to a Mortgage.

“*Notes*” means Bonds designated as “Home Mortgage Revenue Notes”.

“*Origination Period*” means with respect to a Series of Bonds, the period for origination of Mortgage Loans set forth in the related Series Supplemental Indenture.

“*Outstanding*” means, when used with reference to the Bonds, as of a particular date, all Bonds theretofore issued and authenticated under the Indenture except:

(a) Bonds theretofore canceled by the Trustee;

(b) Bonds which have matured or which have been duly called for redemption under the provisions of the Indenture, or with respect to which irrevocable instructions to call for redemption have been given to the Trustee in form satisfactory to it, and for the payment or redemption of which money or Government Obligations, or both, have been deposited with the Trustee, in trust for the owners of such Bonds, in an amount sufficient to pay on the date when such Bonds are to be paid or redeemed, the principal amount or Redemption Price of and the interest on the Bonds to be paid or redeemed; or

(c) Bonds paid or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture;

*provided, however*, that in determining whether the Owners of the requisite percentage of the aggregate amount of the Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Authority, any other obligor upon the Bonds or any affiliate of the Authority or such other obligor will be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee is protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds that the Trustee knows to be so owned will be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee that the pledgee is entitled so to act with respect to such Bonds and that the pledgee is not the Authority, any other obligor upon the Bonds or any affiliate of the Authority or such other obligor.

For purposes of the definition of “Outstanding,” Government Obligations which do not represent instruments backed by a pool of mortgage loans shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Government Obligations, when due, will be sufficient, together with such other money so deposited with the Trustee, to pay on such date the principal or Redemption Price, as applicable, of and the interest on such Bonds to such date.

“*Pass-Through Rate*” means the rate of interest stated on a Mortgage Certificate.

“*Predecessor Bonds*” of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond, and, for purposes of this definition, any Bond authenticated and delivered under the Indenture in lieu of a lost, destroyed or stolen Bond will be deemed to evidence the same debt as the lost, destroyed or stolen Bond.

“*principal*” means (a) as such term references the principal amount of a Discount Bond or Discount Bonds, and with respect to (i) actions, requests, notifications, consents or direction of Bondowners under the Indenture, (ii) required payment upon default or anticipated default pursuant to acceleration of maturity or

otherwise as described in the Indenture, (iii) selection of Bonds for redemption under the Indenture, (iv) credits against Sinking Fund Requirements with respect to the Term Bonds of each maturity, and (v) the calculation of the percentage of Outstanding principal amount of Bonds described in the Indenture related to the withdrawal of amounts from the General Fund, free and clear of the lien of the Indenture, the Accreted Value thereof, and (b) as such term references the principal amount of any other Bond or Bonds, and with respect to any other matters affecting a Discount Bond or Discount Bonds, the principal amount at maturity of such Bond or Bonds.

*“Principal Recoveries”* means all amounts paid in respect of Mortgage Certificates and received by the Authority or the Trustee, from or on account of any Mortgage Loan as a recovery of the principal amount of any Mortgage Loan other than regularly scheduled principal payments (whether current or delinquent), including advance payments, prepayments, proceeds of any insurance in respect of the Mortgage Loan (except such insurance proceeds received by a Mortgage Lender and designated for application to repair of the related property), amounts paid under any fidelity bond or errors and omissions policy covering actions by any Mortgage Lender, and proceeds from the sale, assignment or other disposition of a Mortgage Loan or the mortgaged property in the event of a default thereon or otherwise, and including proceeds from the sale of a Mortgage Certificate and proceeds from repurchase of a Mortgage Loan or an allocable share of a Mortgage Certificate by a Mortgage Lender as a result of a determination that such Mortgage Loan or Mortgage Certificate does not comply with the Program or the Indenture, but excluding any amounts paid or payable under the Mortgage Loans as to which the United States Treasury is required to be given a credit under the provisions of the Code.

*“Prior Perfected Security Interest”* means (i) with respect to each Mortgage Certificate purchased with amounts in the Acquisition Fund, that the Trustee has a first priority security interest in such Mortgage Certificate, as confirmed to the Trustee, if deemed necessary by the Trustee, by an opinion of counsel acceptable to the Trustee, because either (a) the Trustee has physical possession of such Mortgage Certificate and such Mortgage Certificate is registered in the name of the Trustee, or (b) such Certificate is credited to the account of the Trustee at a clearing corporation, as defined under and pursuant to the Uniform Commercial Code of the State of New York, and the clearing corporation is registered as a clearing Agency under the Securities Exchange Act of 1934, as amended, or (c) such Mortgage Certificate has been registered on the books of The Depository Trust Company (“DTC”) in the name of the DTC Custodian, which has confirmed to the Trustee in writing on or prior to the date of purchase that it is holding such Mortgage Certificate on behalf of the Trustee and has identified such Mortgage Certificate on its records as belonging to the Trustee, payment of the purchase price of the Mortgage Certificate has not been made through DTC but directly by the Trustee or the Authority to the originator thereof, and DTC has confirmed to the Trustee in writing or by DTC rule that it has no claim against or lien upon the cash account maintained by DTC for receipt of payment on the Mortgage Certificate, or (d) such Mortgage Certificate is issued in book-entry form through the book-entry system of the Federal Reserve System of the United States, pursuant to which the Mortgage Certificate has been registered on the books of the Federal Reserve Bank in the name of the Trustee and the Trustee has received confirmation that such Mortgage Certificate is being held on behalf of and is identified as belonging to the Trustee, and (ii) with respect to any other property held by the Trustee under the Indenture, that the Trustee has physical possession of such property and it has been delivered to the Trustee in trust for the benefit of the Bondowners.

*“Program”* means the Home Mortgage Revenue Bond Program of the Authority pursuant to which the Trustee, on behalf of the Authority, purchases Mortgage Certificates from Mortgage Lenders pursuant to the Mortgage Origination Agreements and the Procedural Guide.

*“Program Fee”* means the administrative fee payable to the Authority set forth in the Annual Budget, not exceeding the amount included in the current Cash Flow Statement.

*“Program Operation Fund”* means the Program Operation Fund established pursuant to Section 401 of the Indenture.

*“Purchase Price”* means the amount paid by or on behalf of the Authority for the purchase of a Mortgage Certificate pursuant to the terms of the Procedural Guide, not in excess of the principal balance thereof plus accrued interest thereon.

*“Rating Agency”* means any nationally recognized bond rating agency that has assigned outstanding ratings to the Bonds at the request of the Authority (initially, Moody’s and S&P).

*“Rating Confirmation”* means, with respect to any action or financial condition described herein, written confirmation from each of the Rating Agencies that the taking of such action or the existence of such financial condition shall not cause the outstanding ratings by such Rating Agency of all Bonds (which are not rated based solely on the credit of a bond insurer) to be withdrawn, downgraded or suspended.

*“RD”* means the Rural Development unit (formerly a service of the Farmer’s Home Administration) of the United States Department of Agriculture.

*“Redemption Price”* means, with respect to a Bond or portion thereof, the portion of the principal amount of such Bond or the portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the provisions of the Indenture.

*“Regular Record Date”* means the fifteenth (15th) day of the month (whether or not a Business Day) preceding any interest payment date for the Bonds.

*“Reimbursement Obligation”* means any obligation of the Authority or the Trustee to make payments to a provider of an insurance policy, surety bond or agreement, standby purchase agreement, line of credit, letter of credit or other credit enhancement or liquidity facility entered into with respect to a Series of Bonds, which payments are in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Bonds) an advance or other payment made by such provider for the purpose of paying the principal or Redemption Price of or interest on Bonds or the purchase price, plus accrued interest of any Bonds tendered pursuant to the provisions of the related Series Supplemental Indenture; “Bank Bonds” may be issued in satisfaction of any such Reimbursement Obligation which may bear interest at a rate higher than the Bonds to which such Reimbursement Obligation relates.

*“Required Mortgage Certificate Rate”* means the rate of interest payable on a particular Mortgage Certificate, as set forth in the current Cash Flow Statement.

*“Revenues”* means (i) all payments, proceeds, rents, charges and other cash income, other than Principal Recoveries, received by the Authority or the Trustee from or on account of any Mortgage Certificates financed from amounts held under the Indenture, but excluding any amounts which are subject to rebate to the United States pursuant to the Code and excluding accrued interest thereon not purchased from amounts held under the Indenture and (ii) amounts required to be transferred to the Revenue Fund pursuant to the terms of the Indenture from the Cost of Issuance Fund and with respect to investments.

*“S&P”* means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a New York corporation, and its successors and assigns.

*“S&P Rating Standard”* means, with respect to Investment Obligations, the following:

<u>Maturity of Investment Obligation</u>	<u>Rating</u>
Less than 1 year	SP-1+*
1 year and greater	AAA**

“*Securities Depository*” means DTC and its successors and assigns or if (i) the then-Securities Depository resigns from its functions as depository of the Bonds or (ii) the Authority discontinues use of the then-Securities Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds.

“*Serial Bonds*” means the Bonds as to which principal is not scheduled to be paid prior to the maturity thereof.

“*Series*” means one of the series of Bonds issued under and secured by the Indenture.

“*Series Supplemental Indenture*” means a Supplemental Indenture entered into by the Authority with respect to the issuance of a Series of Bonds.

“*Servicing Fee Adjustment Amount*” means the monthly deficiency in the Servicing Fee due to a Mortgage Lender for servicing a Mortgage Loan arising as a result of a specific Pass-Through Rate requirement of GNMA, Fannie Mae or FHLMC determined by the Mortgage Lender under the terms of its Mortgage Origination Agreement and certified to the Trustee by the Mortgage Lender.

“*Sinking Fund Period*” means the semi-annual period immediately preceding each date that the Bonds are subject to mandatory sinking fund redemption pursuant to the Indenture.

“*Sinking Fund Requirement*” means, with respect to the Term Bonds of each maturity and for each Sinking Fund Period, the respective principal amount fixed or computed for such Sinking Fund Period, as provided in the Indenture, for the retirement of such Term Bonds by purchase or redemption (or by payment at maturity in the case of the final Sinking Fund Requirement for any maturity).

If, at the close of any Sinking Fund Period, the total principal amount of the Term Bonds of any maturity retired by purchase or redemption (or called for redemption under the provisions of the Indenture) prior to the close of such Sinking Fund Period is greater than the total amount of the Sinking Fund Requirements for such Bonds to and including such Sinking Fund Period then the Sinking Fund Requirements for such Bonds for all subsequent Sinking Fund Periods will be reduced by the amount of such excess. The amount of the reduction of the Sinking Fund Requirement for each such Sinking Fund Period will be as directed by an Authorized Officer of the Authority accompanied by a Cash Flow Statement or, in the absence of such direction will be in the same proportion, as nearly as reasonably practicable (the amount of such reduction in each Sinking Fund Period being in a multiple of the applicable Authorized Denominations), as the total amount of the reduction bears to the total amount of the Sinking Fund Requirements for all such subsequent Sinking Fund Periods.

It is the duty of the Trustee, on or before the 1st day of each Sinking Fund Period to recompute, if necessary, the Sinking Fund Requirements for the Sinking Fund Period beginning on such date and all subsequent Sinking Fund Periods for the Term Bonds of each maturity then Outstanding. The Sinking Fund Requirement for each Sinking Fund Period as so recomputed will continue to be applicable during the balance

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\* Money market fund investments must be rated AAAM or AAAM-G.

\*\* Provided, however, that investments maturing one (1) year to but not including three (3) years from the date of delivery of the Bonds have an S&P rating of AA-/SP-1+.

of such Sinking Fund Period and no adjustment will be made therein by reason of Term Bonds purchased or redeemed or called for redemption during such respective Sinking Fund Period.

“*Special Record Date*” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to the Indenture.

“*Swap*” means any financial arrangement between the Authority and a Swap Provider, in each case which shall not impair, or cause the Bonds to fail to retain, the then-existing ratings assigned to the Bonds by each of the Rating Agencies, pursuant to which the Authority shall pay interest to such Swap Provider based upon a notional amount stated in the financial arrangement and the Swap Provider shall pay interest at a different rate or on a different basis to the Authority on such notional amount (which amounts may be netted), and which may include (which may be separately executed) a cap, floor or collar, forward rate, future rate, assets swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction agreement, other similar transaction (however designated) or any combination thereof or any option with respect thereto executed by the Authority for the purposes of moderating interest rate fluctuations or enhancing its Program.

“*Swap Provider*” means a financial institution (domestic or foreign) that shall have entered into a Swap with the Authority.

“*Term Bonds*” means the Bonds as to which principal is scheduled to be paid in installments prior to and including the maturity thereof.

“*Trust Estate*” means all the assets and rights which are the subject of the Granting Clauses under the Indenture.

“*USDVA*” means the United States Department of Veterans Affairs.

### **Registration Books (Section 205)**

The Authority will cause books for the registration of and for the registration of transfer or exchange of the Bonds as provided in the Indenture to be kept by the Trustee, as bond registrar.

### **Registration of Transfer of Bonds (Section 206)**

The transfer of any Bond may be registered only upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as is satisfactory to the Trustee. Upon any such registration of transfer of a Bond, the Authority will execute and the Trustee will authenticate and deliver in exchange for such Bond a new Bond or Bonds registered in the name of the transferee, in any denomination or denominations authorized by the Indenture, of the same series and maturity and in an aggregate principal amount equal to the principal amount of, and bearing the same interest rate as the Bond which was surrendered.

In all cases in which Bonds are exchanged, or the transfer of Bonds is registered thereunder, the Authority shall execute and the Trustee shall authenticate and deliver at the earliest practicable time Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in any such exchange or registration of transfer will forthwith be canceled by the Trustee. The Authority or the Trustee may make a reasonable fee or service charge for any such exchange and registration of transfer sufficient to reimburse it for the preparation of each new Bond issued upon an exchange or registration of transfer and for any tax or other governmental charge required to be paid with respect thereto; provided, however, that no such fee or service charge may be made with respect to the first such exchange of any Bond. Neither the Authority nor the Trustee will be required to make any such exchange or registration of transfer of Bonds during the fifteen (15) days immediately preceding the date of first mailing of notice of any proposed redemption of Bonds, or after such Bond or any portion thereof has been selected for redemption.

### **Mutilated, Destroyed or Lost Bonds (Section 210)**

In case any Bond becomes mutilated or destroyed or lost, the Authority will cause to be executed, and the Trustee will authenticate and deliver, a new Bond of like date and tenor in exchange or substitution therefor against delivery for cancellation of such mutilated Bond, or in lieu of and in substitution of a destroyed or lost Bond, and upon the owner's paying the reasonable expenses and charges of the Authority and the Trustee in connection therewith and, in the case of a Bond destroyed or lost, his filing with the Trustee evidence satisfactory to it and to the Authority that such Bond was destroyed or lost, of his ownership thereof, and furnishing the Authority and the Trustee indemnity satisfactory to them. In case any mutilated, destroyed or lost Bond has become or is about to become due and payable, the Authority, in its discretion, instead of issuing a new Bond, may pay such Bond.

### **Effect of Calling for Redemption (Section 303)**

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Indenture, the Bonds or portions of Bonds so called for redemption will become and be due and payable at the Redemption Price provided for redemption of such Bonds or portions of Bonds on such date. If Bonds or portions of Bonds have been duly called for redemption under the provisions of the Indenture, or if irrevocable instructions to call for redemption at the earliest redemption date have been given to the Trustee in form satisfactory to it, and if sufficient moneys, or Government Obligations the principal of and interest on which will provide sufficient moneys, for payment on the Redemption Price of and the accrued interest to the date fixed for redemption, if any, on such Bonds, or portions of Bonds, are held in separate accounts by the Trustee in trust for the owners of the Bonds to be redeemed, as provided in the Indenture, then such Bonds or portions of Bonds will not be Outstanding under the provisions of the Indenture. Interest on such Bonds or portions of Bonds will cease to accrue after the date fixed for redemption, and such Bonds or portions of Bonds will cease to be entitled to any other benefit or security under the Indenture except as stated therein. The owners of such Bonds or portions of Bonds will have no rights in respect of said Bonds, except to receive payment of the Redemption Price thereof and the accrued interest, if any, and, to the extent provided in the Indenture, to receive Bonds for any unredeemed portions of Bonds.

### **Funds and Accounts (Section 401)**

The following Funds and Accounts are created and designated as set forth below:

- (i) Acquisition Fund
  - (a) Series Acquisition Accounts
  - (b) Series Note Accounts
- (ii) Cost of Issuance Fund
- (iii) Revenue Fund
- (iv) Debt Service Fund
  - (a) Interest Account
  - (b) Principal Account
  - (c) Principal Recoveries Account
- (v) Program Operation Fund
- (vi) Servicing Fee Adjustment Fund
- (vii) Special Redemption Fund
- (viii) Optional Redemption Fund
- (ix) General Fund
  - (a) Contribution Account
- (x) Rebate Fund

### **Acquisition Fund (Section 402)**

Amounts in each Series Acquisition Account in the Acquisition Fund will be applied by the Trustee to finance the Purchase Price of Mortgage Certificates in accordance with the requirements of the Indenture.

Except to the extent otherwise stated with respect to a Series of Bonds in the related Series Supplemental Indenture, at the direction of the Authority, amounts in any Series Acquisition Account which are not expected to be used for the acquisition of Mortgage Certificates may be transferred to the Special Redemption Fund at any time. Moneys remaining in the Acquisition Fund on the date or dates set forth in the Cash Flow Statement must be transferred to the credit of the Special Redemption Fund.

Amounts in any Series Note Account shall be transferred upon direction of the Authority to the Special Redemption Fund to be applied to a redemption of the related Series of Notes and otherwise shall be held until one Business Day prior to the maturity of the related Series of Notes and thereupon transferred to the Principal Account.

#### **Cost of Issuance Fund (Section 403)**

Moneys held in the Cost of Issuance Fund will be disbursed to pay the Costs of Issuance upon receipt by the Trustee of a requisition, signed by an Authorized Officer of the Authority, identifying generally the nature and amount of such Costs of Issuance. Any balance remaining in the Cost of Issuance Fund six (6) months after the date of delivery of the Bonds will be transferred to the credit of the Revenue Fund and treated as Revenues.

#### **Application of Revenues and Principal Recoveries; Revenue Fund (Section 404)**

(a) All Revenues will be deposited as received by the Trustee to the credit of the Revenue Fund. All Principal Recoveries received with respect to any Series of Bonds shall be deposited either in the Acquisition Fund or Revenue Fund or the Principal Recoveries Account as required by the related Series Supplemental Indenture; except that all Principal Recoveries which represent proceeds from a sale of Mortgage Certificates under the Indenture will be deposited in the Optional Redemption Fund.

(b) After all Serial Bonds have been retired, moneys held to the credit of the Revenue Fund will be applied by the Trustee, upon direction of an Authorized Officer of the Authority towards the purchase of Term Bonds stated to mature on the next maturity date up to an amount equal to the next Sinking Fund Requirement for such Term Bonds, at the most advantageous price obtainable with reasonable diligence, such price not to exceed the Redemption Price of such Bonds which would be payable on the next redemption date to the owners of such Term Bonds if such Bonds should be called for redemption on such date from the moneys in the Principal Account, but no such purchase may be effected by the Trustee within the period of forty-five (45) days immediately preceding any redemption date on which such Bonds are subject to call for redemption.

(c) After crediting the Rebate Fund with the accrued rebate liability to date since the last such transfer to the Rebate Fund, as directed by the Authority, and after the taking of the required actions described in clause (b) above, the Trustee as of the last day of each month will withdraw all moneys in the Revenue Fund and transfer such moneys to the following Funds and Accounts in the amounts specified and in the following order:

FIRST: To the credit of the Interest Account, such amount as will cause the amount on deposit to the credit of the Interest Account to equal the sum of (i) the amount of any interest then due and payable plus (ii) the accrual to date of the amount of interest which will become due and payable on the next succeeding interest payment date on all Bonds then Outstanding, on the assumption that such interest accrues in equal monthly installments; for purposes of this transfer, (1) interest payable with respect to Bonds as to which a Swap has been executed shall be assumed to be payable at the rate of interest payable by the Authority to the Swap Provider on the notional amount stated in the Swap, and (2) interest payable with respect to variable rate Bonds as to which no Swap has been executed shall be assumed to bear interest at the maximum rate established by S&P in connection with its assignment of ratings to such Bonds;

SECOND: To the credit of the Principal Account, such amount as shall cause the amount on deposit to the credit of the Principal Account to equal the accrual to date of the principal of all Serial Bonds and the

Sinking Fund Requirement which will become due and payable on the next succeeding principal payment date, on the assumption that such principal accrues in equal monthly installments;

THIRD: To the credit of the Servicing Fee Adjustment Fund, an amount equal to the Servicing Fee Adjustment Amount accrued to such date, but in no event more than the Excess Interest received by the Trustee since the preceding interest payment date;

FOURTH: To the credit of the Program Operation Fund an amount for each six month period in a Bond Year equal to one-half ( $\frac{1}{2}$ ) of the Annual Budget Requirement as set forth in the Annual Budget for the then current Bond Year; and

FIFTH: The balance, if any, to the credit of the General Fund.

### **Interest Account (Sections 405 and 203)**

The Trustee will, on each interest payment date or redemption date, withdraw from the Interest Account and (a) subject to the requirements of the Securities Depository with respect to book-entry Bonds, remit by check, mailed or by wire transfer, to each registered owner of Bonds in accordance with the Indenture, the amounts required for paying the interest on the Bonds on such interest payment date; and (b) set aside in trust the amount required for paying interest on all Bonds called for redemption on such redemption date. In addition, the Trustee shall on each date stated in a Swap pay to the Swap Provider the interest due from the Authority on the notional amount stated in the Swap.

Interest is payable to the person in whose name a Bond is registered at the close of business on the Regular Record Date for such interest, by check mailed to such owner at his address as it appears on the registration books of the Trustee. Any Defaulted Interest will forthwith cease to be payable to the registered owner on such Regular Record Date, and may be paid to the person in whose name the Bond is registered at the close of business on such Special Record Date for the payment of such Defaulted Interest to be fixed according to the Indenture, mailed notice thereof being given to the owners of Bonds not less than ten (10) days prior to such Special Record Date.

### **Principal Account (Section 406)**

The Trustee will, on each principal payment date, withdraw from the Principal Account and set aside in trust an amount equal to the amount of, and for the sole and exclusive purpose of paying, the principal of all Serial Bonds and of all Notes as such principal becomes due.

Moneys held for the credit of the Principal Account will also be applied to the redemption of Bonds pursuant to Sinking Fund Requirements. The Trustee will call for redemption on each redemption date such amount of Term Bonds then subject to redemption pursuant to the Sinking Fund Requirements as will exhaust the moneys then held for the credit of the Principal Account after payment of Serial Bonds, as nearly as may be practicable. On the redemption date the Trustee will withdraw from the Interest Account and from the Principal Account and set aside in separate accounts the respective amounts for paying the interest on, and the Redemption Price of, the Term Bonds so called for redemption. Until the date which is forty-five (45) days prior to the due date of any Sinking Fund Requirement, the Trustee upon written direction of the Authority may purchase Bonds subject to such Sinking Fund Requirement on the same terms and conditions contained in Section 409 with respect to amounts in the Special Redemption Fund or Optional Redemption Fund.

### **Principal Recoveries Account (Section 407)**

Amounts in the Principal Recoveries Account will be transferred to the Special Redemption Fund on the dates set forth therefor in the Cash Flow Statement, but only if any such transfer exceeds \$25,000. Until transfer, the Trustee will endeavor to purchase Bonds then Outstanding and subject to redemption from such amounts once transferred to the Special Redemption Fund, in the same manner as prescribed for funds in the

Special Redemption Fund as described below in “Application of Moneys in the Special Redemption Fund and Optional Redemption Fund” below.

**Program Operation Fund (Section 408)**

Moneys held for the credit of the Program Operation Fund will be applied by the Trustee on each interest payment date for the payment of the fees and expenses of the Trustee and the Authority’s accountants, escrow verification agents, cash flow analysts, and costs of rebate analysis, and for payment of the Program Fee, and for any other costs of the Program (including payment of fees and costs of providers of Reimbursement Obligations and of Swaps), not to exceed in any Bond Year an amount equal to the amount set forth therefor in the Cash Flow Statement.

If at any time moneys on deposit in the Program Operation Fund during any Bond Year exceed the Annual Budget Requirement for such Bond Year plus the amount deposited therein upon issuance of the Bonds pursuant to the Indenture such excess will be transferred to the General Fund.

**Application of Moneys in the Special Redemption Fund and Optional Redemption Fund (Section 409)**

Subject to the provisions of subsection (i) below, and in the Indenture, the Trustee will apply all moneys in the Special Redemption Fund and the Optional Redemption Fund to the purchase or redemption of Bonds, as follows:

(i) The Trustee will endeavor to purchase Bonds then Outstanding, whether or not such Bonds are then subject to redemption, at the most advantageous price obtainable with reasonable diligence, such price not to exceed the principal of such Bonds plus the amount of the premium if any, which would be payable on the next redemption date to the owners of such Bonds if such Bonds should be called for redemption on such date from the moneys in either of the above-mentioned Funds; provided, that no such purchase of Bonds may be made from amounts identified under the Indenture as dedicated to the redemption of certain Bonds unless (a) such purchase shall be of such Bonds subject to such redemption, or (b) amounts, other than those amounts to be used for such purchase, are held in the Special Redemption Fund or Optional Redemption Fund, as applicable, equal to the amount of such dedicated funds. The Trustee will pay the interest accrued on such Bonds to the date of settlement therefor from the Interest Account and the purchase price from the Special Redemption Fund or Optional Redemption Fund, as applicable, but no such purchase may be contracted for by the Trustee within the period of forty-five (45) days immediately preceding any date on which such Bonds have been called for redemption; and

(ii) The Trustee, having endeavored to purchase Bonds pursuant to paragraph (i) above, will call for redemption on the dates provided therefor in the Indenture, and if redemption is allowed at any time, on the earliest practicable date on which Bonds are subject to redemption from moneys in the Special Redemption Fund and Optional Redemption Fund such amounts of Bonds then subject to redemption as with the redemption premium, if any, will exhaust the moneys held for the credit of the Special Redemption Fund or Optional Redemption Fund, as applicable, as nearly as may be practicable, provided however, that not less than Five Thousand Dollars (\$5,000) principal amount of Bonds may be called for redemption at any one time. Not less than the Business Day before the redemption date the Trustee will withdraw from the Interest Account and from the Special Redemption Fund or Optional Redemption Fund, as applicable, and set aside in separate accounts the respective amounts for paying the interest on, and the principal of and premium, if any, on the Bonds so called for redemption.

Upon the retirement of any Bonds by purchase or redemption, the Trustee will file with the Authority a statement briefly describing such Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any Bonds will be paid by the Trustee from the Program Operation Fund.

### **Servicing Fee Adjustment Fund (Section 410)**

On each interest payment date, the Trustee shall disburse from the Servicing Fee Adjustment Fund amounts equal in the aggregate to the Servicing Fee Adjustment Amount due on such date (but in no event more than the Excess Interest received by the Trustee since the preceding interest payment date) to the Mortgage Lenders who are servicing Mortgage Loans pooled into Mortgage Certificates and who are entitled to receive a Servicing Fee Adjustment Amount. The amount due to each such Mortgage Lender shall be established in a certificate to be furnished by the Mortgage Lender pursuant to such Mortgage Lenders' Mortgage Origination Agreement, such certificate to be delivered to the Trustee on the date the Trustee acquires the corresponding Mortgage Certificate.

### **General Fund (Section 411)**

(a) Moneys held for the credit of the General Fund (applying amounts in the Contribution Account last) will be applied upon direction of an Authorized Officer of the Authority at any time to pay the portion of the Purchase Price of a Mortgage Certificate representing accrued interest to the extent amounts in the Acquisition Fund are insufficient therefor, and for payment of unfunded Costs of Issuance, and otherwise will be transferred by the Trustee at the following times and in the following order of priority to the following Funds and Accounts:

(i) To the credit of the Interest Account and the Principal Account, such amounts as may be necessary to cause the balances therein to equal the required funding thereof described in the Indenture, at the times and in the order of priority set forth in the Indenture;

(ii) To the credit of the Program Operation Fund, in an amount not greater, when added to other amounts expended therefrom during the current Bond Year, than the dollar limitation for withdrawal from such Fund stated in the Indenture;

(iii) To any Swap Provider, upon written direction of the Authority, the amount of any termination payments due from the Authority under the related Swap (this transfer from the General Fund being the only source of payment of such termination payments, other than moneys of the Authority not constituting a part of the Trust Estate); and

(iv) On each interest payment date on or after each date so reflected in the current Cash Flow Statement, to the Special Redemption Fund, the balance, unless any other application or transfer to any Fund or Account directed to the Trustee by the Authority is reflected in a current Cash Flow Statement, but only if amounts required to be on deposit in the Revenue Fund prior to a transfer of amounts to the General Fund pursuant to the Indenture are on deposit to the credit of the Revenue Fund.

(b) The Trustee shall transfer amounts in the General Fund to the Authority upon direction of an Authorized Officer, for any other purpose authorized or required under the Act and the Enabling Resolution, free and clear of the pledge and lien of the Indenture, *provided, however*, that no such payment may be made under this subsection (b) unless (1) such direction of the Authority shall be accompanied by a Cash Flow Statement and such Cash Flow Statement reflects that the amount of Revenues and Principal Recoveries expected to be received in the current Bond Year and in each Bond Year thereafter constitute at least one hundred (100) percent of the principal of, premium, if any, and interest (calculated in accordance with Section 404(c)) on the Bonds, and all anticipated fees and expenses, due in each such Bond Year, and (2) the Trustee shall have received a Rating Confirmation.

### **Deficiencies in Debt Service Fund (Section 412)**

In the event that amounts in the Debt Service Fund are insufficient on any interest payment date or principal payment date to pay the maturing principal of and interest on the Bonds due and unpaid on such date, whether at the stated payment or maturity date or by the retirement of Bonds in satisfaction of the Sinking

Fund Requirements therefor, the Trustee will, after drawing on the Principal Account and the Interest Account of the Debt Service Fund, withdraw or apply amounts from the following Funds and Accounts, and deposit in the Debt Service Fund, in the following order of priority to the extent necessary to eliminate such deficiency:

- (a) General Fund (Contribution Account last);
- (b) Principal Recoveries Account;
- (c) Program Operation Fund;
- (d) Cost of Issuance Fund; and
- (e) Acquisition Fund.

#### **Enforcement of Mortgage Origination Agreements and Mortgage Loans (Section 604)**

The Authority agrees that the Trustee in its own name or, to the extent required by law, in the name of the Authority, may enforce and defend all rights of the Authority and enforce all obligations of any of the Mortgage Lenders under and pursuant to the Mortgage Origination Agreements for and on behalf of the Bondowners whether or not the Authority is in default under the Indenture, provided that, so long as the Authority is not in default thereunder, the Authority may in its own name enforce all obligations of the Mortgage Lenders under any Mortgage Origination Agreement for the benefit of the Bondowners so long as the Trustee determines that such enforcement is not adverse to the interests of the Bondowners.

#### **Issuance of Other Debt (Section 605)**

The Authority covenants that it will not issue any bonds or other evidences of indebtedness, other than Bonds, secured by a lien on the Trust Estate.

#### **Mortgage Certificate Purchases (Section 606)**

Upon purchase of a Mortgage Certificate, the Trustee will have confirmed that the Trustee has a Prior Perfected Security Interest.

The Trustee will from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Indenture and sound banking practices and principles, do all such acts and things as may be necessary to receive and collect revenues sufficient to pay the principal of or Redemption Price, if any, of and interest on, the Bonds and apply such amounts in a manner consistent with such purposes.

The Authority and the Trustee will duly and punctually perform all their obligations under each contract with the obligors under Mortgage Certificates (GNMA, Fannie Mae or FHLMC, as the case may be) in accordance with the terms thereof; the Authority will cause the Mortgage Lenders to originate the Mortgage Loans in a manner which meets the mortgage requirements of such obligors and will cause to be delivered to such obligors, all necessary documents in connection therewith; the Trustee will diligently enforce the provisions of each Mortgage Certificate, and otherwise take all action necessary, including the immediate giving of notices to the obligor under any Mortgage Certificate on the Assumed Receipt Date of nonreceipt of any amount due under the Mortgage Certificate and the immediate demand for payment thereunder, so as to cause Revenues and Principal Recoveries to be deposited under the Indenture on a timely basis; and the Trustee will give all notices and take any action necessary to preserve and protect the guarantee of the obligor under the Mortgage Certificates.

The Trustee may sell Mortgage Certificates upon direction of the Authority at any time and shall deposit the proceeds thereof in the Optional Redemption Fund; *provided*, that any such sale for an amount which is less than the aggregate principal amount of and accrued interest on the Mortgage Certificates being

sold or an amount less than the amount required to redeem all Bonds Outstanding may only be conducted upon the filing with the Trustee of (1) a Cash Flow Statement which Cash Flow Statement shall reflect that the amount of Revenues and Principal Recoveries expected to be received in the current Bond Year and each Bond Year thereafter constitutes at least one hundred (100) percent of the principal of, premium, if any, and interest on the Bonds, and all anticipated fees and expenses, due in each such Bond Year, and (2) a Rating Confirmation.

#### **Covenants Relating to Purchase of Mortgage Certificates (Section 607)**

(a) The Authority warrants and covenants that no Mortgage Loan will be financed under the Indenture and no Mortgage Certificates will be purchased unless the Mortgage Certificate and the Mortgage Loans backing such Mortgage Certificate comply in all respects with the Act and the Code and have been originated in accordance with the Procedural Guide and the Mortgage Origination Agreements;

(b) The Trustee will not disburse any amounts held in the Acquisition Fund to purchase a Mortgage Certificate for other than the Purchase Price (and only upon receipt of such Mortgage Certificate pursuant to clause (ii) below) and unless each of the following conditions have been satisfied:

(i) The Mortgage Certificate bears interest at an interest rate no lower than the Required Mortgage Certificate Rate, matures no later than the date set forth therefor in the Cash Flow Statement, pays principal and interest to the holder on the Assumed Receipt Date and constitutes a Mortgage Certificate;

(ii) The Trustee has been provided by the Authority with an opinion of counsel (which may consist of a blanket opinion prescribing procedures necessary for such a legal conclusion) to the effect that the Trustee has a Prior Perfected Security Interest in such Mortgage Certificate and, if perfected in the DTC system, the special requirements pertaining to limited purpose accounts maintained by DTC referred to in the definition of "Prior Perfected Security Interest" have been complied with;

(iii) Each mortgage loan in the pool represented by the Mortgage Certificate is a Mortgage Loan under the Program (the Trustee may rely upon a certificate of the Mortgage Lender stating affirmatively that the pool of Mortgage Loans underlying the Mortgage Certificate satisfies the requirements of the Mortgage Origination Agreement and the Procedural Guide); and

(iv) The Trustee has received a certificate of the Authority regarding compliance with the provisions of the Code with respect to each Mortgage Loan in the pool represented by such Mortgage Certificate;

(c) The Trustee will notify S&P of its first purchase of a Mortgage Certificate;

(d) Upon satisfaction of the applicable conditions to purchase of a Mortgage Certificate, the Trustee will disburse Bond proceeds from the Acquisition Fund to purchase a Mortgage Certificate as soon as practicable after presentation by a Mortgage Lender; and

(e) With respect to any Mortgage Certificates on deposit to the credit of Funds and Accounts maintained under the Indenture, if the Trustee has not received payments owing thereunder in any particular month by the Assumed Receipt Date, the Trustee will on that day provide immediate telephonic notice (to be confirmed by written notice within twenty-four (24) hours) thereof to the corresponding paying agent and demand immediate payment.

#### **Tax Covenants (Section 609)**

The provisions of this Section 609 relate to any Bonds issued by the Authority with the intention that interest thereon be exempt from federal income taxation.

The Authority will at all times, to the extent of its power, perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Bonds will be excludable from gross income for Federal income tax purposes.

The Authority shall prohibit any person (or any related person, as defined in Section 147(a)(2) of the Code) for whom the Authority may, under the Program, finance Mortgage Loans from purchasing the Bonds or any other obligations issued by the Authority to carry out the purposes of the Program in an amount related to the amount of the Mortgage Loans to be financed under the Program for such person by the Authority.

### **Cash Flow Statement (Section 610)**

(f) The Authority will have on file with the Trustee a current Cash Flow Statement reflecting the following and at the times reflected: (i) upon purchase or redemption of Bonds, or expenditure of amounts from the Acquisition Fund, in each case in a manner other than as set forth in the most current Cash Flow Statement on file with the Trustee, (ii) prior to redeeming a Series of Bonds from amounts attributable to any other Series of Bonds that is not considered a part of the same issue as the redeemed Bonds for federal income tax purposes, (iii) upon issuance of a Series of Bonds, (iv) prior to releasing amounts to the Authority free and clear of the lien of the Indenture from the General Fund pursuant to the Indenture, (v) prior to the redemption of Bonds at a Redemption Price which includes a premium unless such redemption is to be from amounts generated from sources outside the Trust Estate, and (vi) as required by the Indenture upon sale of Mortgage Certificates.

(g) Each Cash Flow Statement will take into account actions proposed to be taken under the Indenture upon the filing of the Cash Flow Statement and will: (i) set forth for the current and each future Bond Year broken out for each interest payment date during which Bonds will be Outstanding, taking into account any Mortgage Certificates purchased to date and any Bonds to be redeemed upon the filing of such Cash Flow Statement (1) the amount of Revenues and Principal Recoveries expected to be received in such Bond Year, together with any other amounts expected to be held under the Indenture, that are reasonably expected to be available to pay the principal of and interest on the Bonds due and payable in such Bond Year, and fees and expenses payable thereunder in such Bond Year, and (2) the principal of and interest on the Bonds due and payable on each interest payment date in such Bond Year and fees and expenses payable under the Indenture on each interest payment date in such Bond Year; (ii) set forth the assumptions upon which the expectations described in (i) are based; and (iii) show that the amount set forth in clause (1) above for each such Bond Year at least equals the amount set forth in clause (2) above for such Bond Year. The Cash Flow Statement must include cash flow analyses based upon the same assumptions as to purchase of Mortgage Certificates and receipt of Principal Recoveries utilized in the cash flow statements reviewed by the Rating Agencies in connection with their assignment of the outstanding ratings of the Bonds. The Authority may modify such assumptions in whole or in part at any time, but only if such modification will not, in and of itself, impair, or cause the Bonds to retain, the then existing ratings assigned to them by the Rating Agencies, as evidenced to the Trustee by a letter from each Rating Agency. Any other assumptions used in preparing the Cash Flow Statement will be based upon the Authority's reasonable expectations at the time such Cash Flow Statement is filed. Upon filing a Cash Flow Statement with the Trustee, the Authority and the Trustee will thereafter administer the Program and perform its respective obligations hereunder in accordance, in all material respects, with the assumptions set forth in such Cash Flow Statement. Except with respect to actions being taken contemporaneously with the delivery of a Cash Flow Statement, facts reflected in a Cash Flow Statement may be as of a date or reasonably adjusted to a date not more than ninety (90) days prior to the date of delivery of such Statement.

If any Cash Flow Statement shows a deficiency in any Bond Year in the amount of funds expected to be available for the purposes described in the Indenture during such Bond Year, the Authority will not be in default under the Indenture but will take all reasonable actions to eliminate such deficiency. The Authority will be precluded from taking the actions described in the first paragraph of this section if the Cash Flow Statement on file with the Trustee in accordance with the requirements described in the first paragraph of this section shows that the taking of such action will cause a deficiency to occur.

Except as necessary to comply with tax covenants, if the Cash Flow Statement delivered in connection with any purchase or redemption of Bonds does not project Revenues, Principal Recoveries and other amounts held pursuant to the Indenture available and sufficient to pay expenses and debt service on the Bonds when due in each Bond year, an Authorized Officer must certify to the Trustee that the projected deficiency in each Bond Year is less than it would have been if all or a portion of the amounts transferred or used had been invested in Investment Obligations on terms then available.

### **Swaps and Reimbursement Obligations (Section 612)**

Pursuant to the terms of the applicable Series Supplemental Indenture, the Authority may enter into Swaps and incur Reimbursement Obligations pursuant to any contract with providers with respect to a Series of Bonds. Reimbursement Obligations shall be payable from the Trust Estate only if the subject of a Rating Confirmation. In accordance with the provisions of the related Series Supplemental Indenture, any provider of any insurance policy, surety bond or agreement, standby purchase agreement, line of credit, letter of credit or other credit enhancement or liquidity facility with respect to all or any portion of a Series of Bonds, if not in default under such instrument or contract, may be deemed the sole owner of such Bonds for purposes of consent required from owners of Bonds under the Indenture.

### **Events of Defaults Defined (Section 702)**

Each of the following events is declared to be an “Event of Default” under the Indenture:

- (a) Payment of the principal or Redemption Price of any Bond is not made when the same becomes due and payable at maturity or by proceedings for redemption or otherwise; or
- (b) Payment of any installment of interest on the Bonds is not made as the same becomes due and payable; or
- (c) The Authority fails to deposit in the Principal Account in any Sinking Fund Period an amount equal to the Sinking Fund Requirement for such Sinking Fund Period; or
- (d) Final judgment for the payment of money is rendered against the Authority and any such judgment is not discharged within sixty (60) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment has been granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or
- (e) An order or decree is entered, with the consent or acquiescence of the Authority, appointing a receiver or receivers of any Revenues, Principal Recoveries or other moneys or assets, including Mortgage Certificates, or such an order or decree shall be entered without the consent or acquiescence of the Authority and shall not be vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or
- (f) Any proceeding is instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors pursuant to any Federal, Commonwealth or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Revenues, Principal Recoveries, or other moneys or assets pledged under the Indenture, including the Mortgage Certificates; or
- (g) The Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture on the part of the Authority to be performed, and such default continues for thirty (30) days after written notice specifying such default and requiring same to be remedied has been given to the Authority by the Trustee, which may give such notice upon the written request of the owners of not less than sixty-six and two-thirds (66⅔) percent in an aggregate principal amount of the Bonds then Outstanding.

### **Enforcement of Remedies (Section 703)**

Upon the happening and continuance of any Event of Default under the Indenture described in (a), (b) and (c) under “Events of Default” above, the Trustee shall proceed, and with respect to any Event of Default under the Indenture described in (d) through (g) under “Events of Default” above, the Trustee may proceed, and upon the written request of the owners of not less than one hundred (100) percent in aggregate principal amount of the Bonds then Outstanding under the Indenture, the Trustee will proceed, subject to its rights to indemnification, to take any of the following actions: (i) to declare the principal of all of the Bonds then Outstanding and the accrued interest thereon immediately due and payable without premium, and such principal and interest will thereupon become immediately due and payable, or (ii) to protect and enforce its rights and the rights and remedies of the Bondowners under applicable laws and under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights.

### **Pro Rata Application of Funds (Section 704)**

Anything in the Indenture to the contrary notwithstanding, if at any time the moneys in the Debt Service Fund (after all withdrawals from any Fund or Account established in the Indenture) are not sufficient to pay the interest on or the principal of the Bonds as the same becomes due and payable either by their terms or acceleration of their maturities pursuant to the Indenture, such moneys, together with any moneys then available or thereafter becoming available for such purpose, including any moneys then held for the credit of any other Funds and Accounts pledged to secure the payment of the Bonds as provided in the Indenture, whether through the exercise of the remedies provided for in the Indenture or otherwise after payment of all amounts owed the Trustee under the Indenture, will be applied to pay the fees and expenses of the Trustee and then as follows:

(a) If the principal of all the Bonds has not become due or has not been declared due and payable, all such moneys will be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments became due and payable and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which have become due and payable (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture) in the order of their due dates, with interest on the principal amount of such Bonds at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

THIRD: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of the Indenture.

(b) If the principal of all the Bonds has become or has been declared due and payable, all such moneys will be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest due and payable on or prior to maturity, if any, in the order in which such installments became due and payable and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and then to the payment of any interest due and payable after maturity on the Bonds, ratably, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

SECOND: to the payment of the principal of the Bonds, ratably, to the persons entitled thereto, without preference or priority of any Bond over any other Bond.

The provisions described in paragraphs (a) and (b) of this section are in all respects subject to the provisions of the Indenture.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described in this section, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion determines, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The deposit of such moneys with any paying agents, or the setting aside of such moneys in another manner, in trust for the proper purpose will constitute proper application by the Trustee; and the Trustee will incur no liability whatsoever to the Authority, to the Bondowners or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which will be an interest payment date unless the Trustee deems another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the fixing of any such date and will not be required to make payment to the owner of any Bond until such Bond is surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

#### **Control of Proceedings by Bondowners (Section 706)**

Anything in the Indenture to the contrary notwithstanding, the owners of a majority in principal amount of the Bonds then Outstanding under the Indenture shall have the right, subject to the provisions of the Indenture requiring indemnification of the Trustee, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee thereunder, provided that such direction may not be otherwise than in accordance with law or the provisions of the Indenture.

#### **Restrictions Upon Actions by Individual Bondowner (Section 707)**

No owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Indenture or for any other remedy thereunder unless such owner previously has given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless the owners of not less than ten (10) percent in aggregate principal amount of the Bonds then Outstanding have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its or their name, and unless there has been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby and the Trustee has refused or neglected to comply with such request within a reasonable time; such notification, request and offer of indemnity are, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy thereunder; *provided, however,* that notwithstanding the foregoing provisions described in this section and without complying therewith, the

owners of not less than twenty (20) percent in aggregate principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all owners of Bonds thereunder. It is understood and intended that, except as otherwise described above and in the Indenture, no one or more owners of the Bonds thereby secured has any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right thereunder except in the manner therein provided; that all proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all owners of such Outstanding Bonds; and that any individual right of action or other right given to one or more of such owners by law is restricted by the Indenture to the rights and remedies therein provided.

#### **Optional Preservation of Trust Estate (Section 712)**

(a) If the Bonds have been declared due and payable following an Event of Default and such declaration and consequences have not been rescinded and annulled, the Trustee may, in its sole discretion and to the extent permitted by applicable law, refrain from selling the assets subject to the lien of the Indenture in favor of the Bondowners (referred to in the Indenture as the “Trust Estate”) and may apply all amounts receivable with respect to the Trust Estate to the payment of the principal of and interest on the Bonds as and when such principal and interest would have become due pursuant to the terms hereof and of the Bonds if there had not been a declaration of acceleration of the maturities of the Bonds, provided that:

(i) The Trustee has determined that the amounts receivable with respect to the Trust Estate are sufficient to provide the funds required to pay the principal of and interest on the Bonds as and when such principal and interest would have become due pursuant to the terms of the Indenture and of the Bonds if there had not been a declaration of acceleration of the maturities of the Bonds;

(ii) The owners of the Bonds have not directed the Trustee to sell the Trust Estate; and

(iii) If there are any Discount Bonds then Outstanding, there has been delivered to the Trustee a Counsel’s Opinion to the effect that notwithstanding the acceleration of the maturities of the Discount Bonds

A. the Authority is legally obligated to make payments of principal of and interest on the Discount Bonds in the same manner and amounts as it was legally obligated to make such payments prior to the acceleration of the maturities of the Discount Bonds, and

B. such obligation is legally enforceable under applicable law, subject to bankruptcy, reorganization, insolvency and other laws affecting the enforcement of creditors’ rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) The Trustee may, but need not, obtain and rely upon an opinion of an independent investment banking firm of national reputation as to the feasibility of any action proposed to be taken in accordance with subsection (a) of this section and as to the sufficiency of the amounts receivable with respect to the Trust Estate to make the required payments of principal of and interest on the Bonds, but any such opinion, if so obtained, will be conclusive evidence as to such feasibility or sufficiency.

(c) If the Trustee has acquired all of the Trust Estate by purchasing it at any public or private sale, the Trustee may, in its sole discretion, and to the extent permitted by applicable law, apply all amounts receivable with respect to the Trust Estate pursuant to section (a) above if the Trustee determines that the condition set forth in section (a) above is satisfied and if the Trustee obtains a Counsel’s Opinion to the effect that, notwithstanding the acquisition of the property pledged under the Indenture by the Trustee, the rights, powers and duties of the Trustee with respect to the property pledged under the Indenture (or the proceeds thereof) and the Bondholders and the rights of Bondholders will continue to be governed by the terms of the Indenture.

### **Indemnification of Trustee as Condition for Remedial Action (Section 802)**

The Trustee will be under no obligation to institute any suit, or to institute any remedial proceeding under the Indenture, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the Indenture or in the enforcement of any rights and powers thereunder, until it has been indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability; the Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity, and in such case the Authority shall reimburse the Trustee. If the Authority fails to make such reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of the Indenture and will be entitled to a preference over any of the Bonds Outstanding.

### **Trustee Not Liable for Failure of the Authority to Act (Section 803)**

The Trustee will not be liable or responsible because of the failure of the Authority or of any of its employees or agents to make any collections or deposits or to perform any act under the Indenture required of the Authority or because of the loss of any moneys arising through the insolvency or the act or default or omission of any other depository in which such moneys have been deposited under the provisions of the Indenture. The Trustee will not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or transferred if made in accordance with the provisions of the Indenture. The immunities and exemptions from liability of the Trustee in the Indenture will extend to its directors, officers, employees and agents.

None of the provisions of the Indenture may be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct.

### **Compensation and Indemnification of Trustee (Section 804)**

Subject to the provisions of any contract between the Authority and the Trustee relating to the compensation of the Trustee, the Authority will pay to the Trustee, from moneys in the Program Operation Fund, reasonable compensation for all services by it under the Indenture (which fee will not be limited by provisions of law relating to Trustees of express trusts) and also its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts thereby created and the performance of its powers and duties thereunder, and the Authority will indemnify, defend and save the Trustee harmless against any liabilities (including fees and expenses of Counsel) which it may incur in the acceptance, exercise and performance of its powers and duties under the Indenture.

If the Authority fails to make any payment required to the Trustee, the Trustee may make such payment from any moneys in its possession under the provisions of this Indenture and will be entitled to a preference therefor over any of the Bonds Outstanding hereunder, but not to exceed in any Bond Year the limitation described in the Indenture.

### **Resignation or Removal of Trustee; Appointment of Successor Trustee (Sections 811, 812 and 813)**

The Trustee may resign at any time upon sixty (60) days' prior publication of notice and upon appointment of a successor Trustee. The Trustee may be removed at any time without cause by action of the owners of at least twenty (20) percent in aggregate Outstanding principal amount of Bonds and sixty (60) days' prior publication of notice. The Trustee may be removed for cause by a court of competent jurisdiction upon application of the Authority or the owners of not less than five (5) percent in aggregate Outstanding principal amount of Bonds.

If at any time the Trustee resigns, is removed, is dissolved or otherwise becomes incapable of acting, or the bank acting as Trustee is taken over by any governmental official, agency, department or board, the

Authority will appoint a successor Trustee. The Authority will publish notice of any such appointment made by it once in each week for four (4) successive weeks in a daily newspaper of general circulation published in the municipality of San Juan, Puerto Rico in a daily newspaper of general circulation or a financial journal published in the Borough of Manhattan, City and State of New York, and, before the second publication of such notice, will mail a copy thereof to each Bondowner.

At any time within one year after the appointment by the Authority of any successor Trustee, the owners of a majority in principal amount of the Bonds secured and then Outstanding, by an instrument or concurrent instruments in writing, executed by such Bondowners and filed with the Authority, may appoint a successor Trustee, which will supersede any Trustee theretofore appointed by the Authority.

Any Trustee appointed must be a bank duly authorized to exercise corporate trust powers and subject to examination by Federal, state or Commonwealth authority of good standing, and having a combined capital and surplus aggregating not less than Fifty Million Dollars (\$50,000,000).

#### **Amendments and Supplements Without Bondowners' Consent (Section 1001)**

The Authority and the Trustee may, from time to time, enter into such agreements supplementing or amending the Indenture, without the consent of the Bondowners, by supplemental indenture, authorized by a resolution of the Authority, for one of the following purposes:

(a) To cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Indenture which are not inconsistent with the provisions of the Indenture, provided such action does not adversely affect the interest of the Bondowners; or

(b) To grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Trustee; or

(c) Upon and in connection with the issuance of a Series of Bonds; or

(d) To change the Pass-Through Rates on Mortgage Certificates, provided, that each of the Rating Agencies has verified in writing that such addition or modification shall not impair, or cause the Bonds to fail to retain, the outstanding rating assigned to the Bonds by such Rating Agency as evidenced by a Rating Confirmation; or

(e) To add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power therein reserved to or conferred upon the Authority; or

(f) If the Securities Depository is not DTC, to make changes to the Indenture required to set forth the book-entry procedures of such Security Depository; or

(g) To make any changes to the Indenture necessary to meet any requirement of GNMA, Fannie Mae or FHLMC or FHA, RD or USDVA, as applicable, in connection with Mortgage Certificates held by the Trustee, provided such action does not adversely affect any then-existing rating on the Bonds, as evidenced by a Rating Confirmation; or

(h) To make any changes that are not inconsistent with the provisions of the Indenture, provided such action does not adversely affect the interest of the Bondowners, including changes to substitute for or add provisions necessary to obtain ratings of the Bonds from rating agencies other than S&P.

### **Amendments With Bondowners' Consent (Section 1002)**

With the consent and approval of the owners of not less than sixty (60) percent in aggregate principal amount of the Bonds then Outstanding, the Authority and the Trustee will have the right to enter into such supplemental indentures or agreements as are deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture; provided, however, that nothing contained in the Indenture may permit, or be construed as permitting, without the consent of all Bondowners: (a) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of the Revenues, Principal Recoveries and other moneys or assets pledged under the Indenture, including the Mortgage Certificates, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, and provided that no such supplemental indenture or agreement may change, amend or modify the rights or obligations of the Trustee without the written consent of the Trustee.

### **Defeasance (Section 1101)**

If, when the Bonds secured by the Indenture have become due and payable in accordance with their terms or otherwise as provided in the Indenture or have been duly called for redemption or irrevocable instructions to call the Bonds for redemption have been given by the Authority to the Trustee, the whole amount of the principal or Redemption Price (as the case may be) on all of the Bonds then Outstanding will be paid, or sufficient moneys or Government Obligations, described in (i) of the definition thereof in the Indenture, provided such Government Obligations are not callable prior to maturity at the option of the issuer thereof, are fixed rate and do not represent a security backed by a pool of mortgages, the principal of and interest on which when due will provide sufficient moneys for such purpose under the provisions of the Indenture, are held by the Trustee, and provision satisfactory to the Trustee has been made for paying all other sums payable thereunder by the Authority, as verified by independent certified public accountants, then and in that case the right, title and interest of the Trustee will thereupon cease, terminate and become void, and the Trustee in such case, on demand of the Authority, will release the Indenture and will execute such documents to evidence such release as may be reasonably required by the Authority, and will turn over to the Authority or to such officer, board or body as may then be entitled by law to receive the same, any surplus in any Account of the Debt Service Fund and all balances remaining in any other Funds or Accounts other than moneys held for the redemption or payment of Bonds; provided, however, that in the event moneys or Government Obligations are held by the Trustee as hereinabove provided, in addition to the redemption requirements set forth in the Indenture, the Trustee will within thirty (30) days after such Government Obligations have been deposited with it, cause a notice signed by the Trustee to be published once in a daily newspaper of general circulation published in the municipality of San Juan, Puerto Rico and in a daily newspaper of general circulation or a financial journal published in the Borough of Manhattan, City and State of New York, setting forth (a) a description of the Government Obligations so held by it, and (b) that the Indenture has been released in accordance with the provisions of the Indenture, and the Trustee will nevertheless retain such of its rights, powers and privileges and of the Authority's duties and obligations under the Indenture as may be necessary and convenient in respect of the Bonds for the payment of the principal, interest and any premium and its indemnification rights.

All moneys and Government Obligations held by the Trustee pursuant to this section of the Indenture will be held in trust and the principal and interest of said Government Obligations when received, and said moneys shall be applied to the payment, when due, of the principal of and the interest on the Bonds so called for redemption.

### **Payments Due on Weekends and Holidays (Section 1206)**

If the date for making any payment of principal or premium, if any, or interest or the last date for performance of any act or the exercising of any right, as provided in the Indenture, is not a Business Day, such

payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in the Indenture.

## **GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

As required by Act No. 272 of the Legislature of the Commonwealth, approved May 15, 1945, as amended, Government Development Bank has acted as financial advisor and fiscal agent to the Authority in connection with the bonds offered hereby. As financial advisor and fiscal agent, Government Development Bank participated in the selection of the Underwriters (as defined herein) of the Offered Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth and its instrumentalities and public corporations.

## **THE TRUSTEE**

Banco Popular de Puerto Rico, San Juan, Puerto Rico, is the Trustee under the Indenture. The Trustee's principal offices are located at Popular Center, 209 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918. The Trustee was founded in 1893. The Trustee is a bank organized under the laws of the Commonwealth and is a member of the Federal Reserve System. At December 31, 2002, the Trustee had total assets of approximately \$21.5 billion, consolidated total deposits of approximately \$12.8 billion, and shareholders' equity of approximately \$1.5 billion. The Trustee and its affiliates conduct a national and international wholesale banking business and a retail banking business in Puerto Rico, and provide a comprehensive range of corporate and personal trust, securities processing, and investment services. Quarterly Reports of Condition of the Trustee are on file with the Federal Reserve Bank of New York.

## **TAX MATTERS**

### **Section 143 Requirements**

Section 143 of the Code provides that interest on obligations of a governmental unit issued to finance single-family residences is excludable from the gross income of the recipients thereof for Federal income tax purposes under Section 103 of the Code only if certain requirements are met with respect to the terms, amount and purpose of the obligations, the use of funds generated by the issuance of the obligations, the nature of the residence and the mortgage loan, the origination of mortgage loans, the repayment of the tax-exempt borrowing, the eligibility of the borrower executing the mortgage and periodic and annual information reports of the Authority. Certain of such requirements must be met subsequent to the issuance of the Offered Bonds in order that interest on the Offered Bonds be excludable from gross income for Federal income tax purposes. The Authority is thus required to provide restrictions in all relevant documents that permit financing only in accordance with such requirements and that the Authority establish reasonable procedures to ensure compliance.

Under Section 143 of the Code, the following requirements must be met with respect to each mortgage loan financed with the proceeds of a qualified mortgage issue: (1) the residence being financed must reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided, and must not be expected to be used in a trade or business, as an investment property or as a vacation home; (2) except in the case of a "targeted area residence," the mortgagor must have had no present ownership interest in a principal residence at any time during the three-year period prior to the date on which the mortgage is executed; (3) the acquisition cost of the residence must not exceed certain limitations set forth in Section 143 of the Code; (4) the income of the mortgagor must not exceed certain limitations set forth in Section 143 of the Code; (5) proceeds may not be applied to acquire or replace an existing mortgage, except for the replacement of temporary initial financing; and (6) a mortgage may not be assumed unless the requirements in (1) through (4) above are met at the time of such assumption.

Section 143 of the Code also requires that a qualified mortgage issue meet certain requirements relating to arbitrage restrictions, set-aside of proceeds for origination in targeted areas, the provision of written

notice to mortgagors of a potential mortgage recapture tax, use of proceeds for loan origination within a prescribed time period, and the use of repayments of principal of mortgage loans to redeem bonds.

A qualified mortgage issue is treated as meeting the requirements set forth in (1) through (5) above only if (a) the issuer in good faith attempts to meet all of such requirements before the mortgages were executed, (b) 95% or more of the net proceeds of the issue used to make loans were used to finance residences that met all such requirements at the time the loans were executed or assumed, and (c) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered. For purposes of determining whether 95% of the net proceeds used to make mortgages have been so used, the Authority is entitled to rely on an affidavit of the mortgagor and of the seller and on the mortgagor's Commonwealth income tax returns filed for the three years preceding the date the mortgage is executed, unless the Authority or its agent knows or has reason to believe that such information is false. If the relevant information in the affidavits obtained in connection with any loan is discovered to be untrue, however, the correction requirements in (c) above must still be met. A qualified mortgage issue is treated as meeting the requirements relating to arbitrage, the targeted area set-aside and the notice of potential recapture tax only if (i) the issuer in good faith attempted to meet all such requirements and (ii) any failure to meet such requirements is due to an inadvertent error after taking reasonable steps to comply with such requirements.

The Authority has included provisions in the Indenture, the Mortgage Origination Agreements, the Procedural Guide and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Mortgage Lenders, borrowers and others respecting the mortgage eligibility requirements), in order to ensure compliance with the requirements of Sections 143 and 148 of the Code, including the mortgage eligibility requirements, the requirements to correct any failure to comply with the mortgage eligibility requirements and the requirements relating to nonmortgage investments. The Authority has covenanted in the Indenture to take all actions which are necessary to comply with the mortgage eligibility requirements of Section 143 of the Code and the arbitrage limitations of Sections 143 and 148 of the Code and for such purpose, to adopt and maintain appropriate procedures. The Authority believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to ensure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of Sections 143 and 148 of the Code so that interest on the Offered Bonds will be excludable from gross income for Federal income tax purposes. In the opinion of Bond Counsel, the procedures that have been established in the Indenture, the Mortgage Origination Agreements, the Procedural Guide and other relevant Program Documents are sufficient, if followed by the Authority, to comply with the requirements of Section 143 of the Code and Bond Counsel has assumed therefore that such procedures will continue to be carried out and that such Indenture covenant will be complied with by the Authority in rendering its opinion described below as to Federal income tax exemption.

### **Opinions of Bond Counsel**

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under the provisions of the Acts of Congress now in force and under existing statutes and court decisions, (a)(i) assuming compliance by the Authority with and enforcement by the Authority of the provisions of the Indenture, the Mortgage Origination Agreements and the Authority's Arbitrage and Use of Proceeds Certificate, as applicable, interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to applicable Federal tax law, and (ii) interest on the Offered Bonds is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations, and (b) the Offered Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Offered Bonds for certain Bondowners, and certain requirements of the Code must be satisfied after the date of issuance of the Offered Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law. In rendering such opinion, Hawkins, Delafield & Wood, Bond Counsel, expresses no opinion as to the exclusion from gross income of interest on any of the Offered Bonds subsequent to any date on which action is taken pursuant to the Indenture for which the Indenture requires a legal opinion to the effect that taking such action will not adversely affect such exclusion, should Hawkins, Delafield & Wood not deliver an opinion as of such date to such effect.

## **Certain Federal Tax Consequences with Respect to the Offered Bonds**

The following is a brief discussion of certain Federal income tax matters with respect to the Offered Bonds under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of an Offered Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

Prospective owners of Offered Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and certain foreign corporations), financing institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and individuals otherwise eligible for the earned income tax credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Offered Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

## **Proposed Federal Tax Legislation**

Legislation has been introduced in the United States House of Representatives which, among other things, would repeal the 10-Year Rule (as defined hereinabove) for principal payments and principal repayments received after the date of enactment of the proposed legislation (the "House Bill"). A member of the Finance Committee of the United States Senate has also introduced a bill identical to the House Bill (the "Senate Bill"). The House Bill, the Senate Bill and another bill introduced in the House of Representatives would also amend the purchase price limits established under the Code. There can be no assurance that such legislation will be enacted or that it will be enacted in its present form, or that other legislation regarding the 10-Year Rule or purchase price limits or other matters affecting the Code will not be introduced or enacted. Legislation affecting municipal bonds is frequently considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Offered Bonds will not have an adverse effect on the exclusion of interest on the Offered Bonds from gross income pursuant to the Code or the market price of the Offered Bonds.

## **UNDERWRITING**

The Underwriters have agreed, jointly and severally, to purchase the Offered Bonds (other than the Term Bonds due December 1, 2023 and December 1, 2034 which are being purchased directly by an institutional investor) at the initial offering prices set forth on the inside cover page, plus accrued interest. The Underwriters will receive compensation as underwriters and placement agent in the form of an underwriters' discount equal to \$814,625.06. The Purchase Contracts with respect to the Offered Bonds provide that the Underwriters and the institutional purchaser will purchase the Offered Bonds, subject to fulfillment of certain terms and conditions set forth in the Purchase Contracts, including the receipt of certain legal opinions. In the Purchase Contract with the Underwriters, the Authority has agreed to indemnify the Underwriters, to the extent permitted by law, against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that the Underwriters may be required to make in respect thereof. The initial public offering prices of the Offered Bonds may be changed, from time to time, by the Underwriters. The Purchase Contract with the Underwriters provides that the Underwriters may offer and sell the Offered Bonds to certain dealers (including dealers depositing the Offered Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the public offering prices stated on the inside cover page.

Certain national underwriting firms have entered into written agreements with local Commonwealth-based underwriting firms pursuant to which the local firm has agreed to provide investment banking services to the national firm in connection with the national firm's provision of underwriting and investment banking services to the Authority with respect to the Offered Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, the local firm will be entitled

to receive a portion of the national firm's actual net profits, if any, in connection with the underwriting of the Offered Bonds. Such agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Lehman Brothers and Santander Securities Corporation; Banc of America Securities LLC and Oriental Financial Services Corporation; JP Morgan Securities, Inc. and R-G Investments Corporation; Goldman, Sachs & Co. and FirstBank Puerto Rico; Merrill Lynch, Pierce, Fenner & Smith Incorporated and BBVA Capital Markets of Puerto Rico, Inc.; Morgan Stanley and Popular Securities, Inc.; Raymond James & Associates, Inc. and Prudential Securities Corporation; and Wachovia Bank, National Association and Doral Securities, Inc.

### **LEGAL INVESTMENT**

The Offered Bonds will be eligible for deposit by banks in the Commonwealth to secure public funds and will be approved investments for insurance companies to qualify them to do business in the Commonwealth, as required by law.

### **LITIGATION**

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the Offered Bonds or in any way contesting or affecting the validity of the Offered Bonds, the resolutions or other proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the pledge or application of any moneys under the Indenture or the existence or powers of the Authority.

### **LEGAL MATTERS**

All legal matters incident to the authorization, issuance, sale and delivery of the Offered Bonds are subject to the approval of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority. The issuance of the Offered Bonds is conditioned upon the delivery on the respective issuance dates of the related approving opinion of Bond Counsel in substantially the applicable form attached to this Official Statement as Appendix A. Certain legal matters will be passed upon for the Underwriters by their counsel, O'Neill & Borges, San Juan, Puerto Rico.

### **RATINGS**

It is a condition to the purchase of the Offered Bonds by the Underwriters that they be rated "AAA" by S&P and "Aaa" by Moody's (each, a "Rating Agency"). There is no assurance that such ratings will continue for any period of time or that they will not be revised or withdrawn entirely by either such Rating Agency if, in its judgment, circumstances so warrant. A securities rating is not a recommendation to buy, sell, or hold securities. Each security rating should be evaluated independently of any other security rating. The Indenture at present contains provisions that address requirements, including consents and approvals, required of each Rating Agency. However, the Indenture may be amended from time to time, if such amendment is not materially adverse to Bondowners, to include such requirements for the benefit of other nationally recognized rating agencies if the Authority requests such ratings agencies to rate the Offered Bonds.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), the Authority and the Trustee have entered into a Master Continuing Disclosure Agreement for the benefit of the owners of all Bonds issued from time to time under the Indenture (the "Disclosure Agreement"), which Disclosure Agreement was executed by Puerto Rico Housing Finance Corporation, statutory predecessor of the Authority, at the time of the execution of the Indenture. In the Disclosure Agreement, the Authority has agreed to provide annually, on or before 305 days after the end of the Authority's fiscal year, to each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (the "Repository"), and if and when one is established, a state

information depository for the Commonwealth of Puerto Rico (the “State Information Depository”), certain financial and operating data referred to in the Indenture as “Annual Information.” In addition, the Authority has undertaken in the Disclosure Agreement, for the benefit of the owners of the Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board (“MSRB”), and to the State Information Depository, in a timely manner, the notices required to be provided by Rule 15c2-12.

The Annual Information concerning the Trust Estate shall consist of the following: (1) annual financial statements of the Program, prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards; provided, however, that if audited financial statements are not available by the date described above, unaudited financial statements shall be provided and such audited financial statements shall be delivered by the Authority for delivery to each Repository and to the State Information Depository when they become available; and (2) statistics as to progress of purchase of Mortgage Certificates and Mortgage Certificate prepayment experience; together with such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of such financial and operating data.

The notices required to be provided by Rule 15c2-12, which the Authority has undertaken to provide as described above, include notices of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; 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) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (6) modification to the rights of owners of Bonds; (7) Bond calls, other than mandatory sinking fund redemptions; (8) defeasances of all or a portion of the Bonds; (9) the release, substitution, or sale of property securing repayment of the Bonds; and (10) rating changes. In addition, the Authority must provide to each Repository or to the MSRB and to the State Information Depository, in a timely manner, notice of a failure by the Authority to provide the Annual Information required by the Disclosure Agreement.

If a party to the Disclosure Agreement fails to comply with any provisions thereof, then the other party to the Disclosure Agreement and, as a direct or third party beneficiary, as the case may be, any owner of the Bonds, may enforce, for the equal benefit and protection of all owners similarly situated, by mandamus or other suit or proceeding at law or in equity, the Disclosure Agreement against such party and any of its officers, agents and employees, and may compel such party or any such officers, agents or employees to perform and carry out their duties thereunder; provided that the sole and exclusive remedy for breach or default under the Disclosure Agreement to provide the continuing disclosure described above is an action to compel specific performance of the undertakings contained therein, and no person or entity may recover monetary damages thereunder under any circumstances; provided further, however, that the rights of any owner of Bonds to challenge the adequacy of the information provided by the Authority are conditioned upon the provisions of the Indenture with respect to the enforcement of remedies of owners of the Bonds upon the occurrence of an Event of Default described in the Indenture. A breach or default under the Disclosure Agreement shall not constitute an Event of Default under the Indenture. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to be provided. Beneficial Owners of the Bonds are third party beneficiaries of the Disclosure Agreement and, as such, are deemed to be owners of the Bonds for the purposes of exercising remedies.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data. Where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Disclosure Agreement, however, may be amended or modified without the consent of the owners of the Bonds under certain circumstances set forth in the Disclosure Agreement.

The Authority does not expect to be able to file the Annual Information relating to the Program with respect to the fiscal year that ended on June 30, 2002 prior to the due date thereof (305 days after the end of the fiscal year, or May 1, 2003), and has not yet finalized such Annual Information. The Authority expects to be able to file the Annual Information in the near future. The principal reason for this delay is that the Annual Information is audited as part of the audit of the financial statements of the Authority itself, and the publication and audit of the financial statements of the Authority have been delayed this year by reason of the adoption of certain accounting rules. In addition to the Disclosure Agreement, the Authority is a party to several other continuing disclosure agreements. One of these agreements requires the Authority to file annual information within 180 days after the end of each fiscal year. Although the Authority has made all filings required under this agreement, it has not made them within the 180-day deadline provided by this agreement. In connection with the issuance of the Offered Bonds, the Authority has agreed to comply with its continuing disclosure obligations under the Disclosure Agreement and under all other continuing disclosure agreements to which the Authority is a party.

Copies of the Disclosure Agreement are on file at the office of the Authority.

### **MISCELLANEOUS**

The summaries and explanations of the Enabling Resolution, the Indenture or the Program Documents contained herein do not purport to be complete and reference is made to said Enabling Resolution, Indenture or Program Documents for their full and complete provisions. The Appendix attached hereto is a part of this Official Statement. During the offering period, copies, in reasonable quantity, of the Enabling Resolution, Indenture or Program Documents may be obtained upon request directed to the Authority, P.O. Box 42003, Minillas Station, San Juan, Puerto Rico 00940.

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 Authority and the purchasers or owners of any of the Bonds.

**PUERTO RICO HOUSING FINANCE AUTHORITY**

By: /s/ JOSÉ R. CESTERO  
Executive Director

April 24, 2003

**FORM OF BOND COUNSEL APPROVING OPINION**  
**[Letterhead of Hawkins, Delafield & Wood]**

Puerto Rico Housing Finance Authority  
606 Barbosa Avenue  
Rio Piedras, Puerto Rico 00936

We have examined the Constitution and the laws of the Commonwealth of Puerto Rico (the “Commonwealth”), including Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, creating Government Development Bank for Puerto Rico as a public corporation and governmental instrumentality of the Commonwealth, and Resolution No. 4023, as amended (the “Enabling Resolution”), adopted by the Board of Directors of Government Development Bank for Puerto Rico on November 16, 1977, as affected by Act No. 103 of the Legislature of Puerto Rico, approved August 11, 2001, and Act No. 107 of the Legislature of Puerto Rico, approved July 31, 2002 (Act No. 17, Act No. 103 and Act No. 107, collectively, the “Act”), creating the Puerto Rico Housing Finance Authority (the “Authority”) as a subsidiary of Government Development Bank for Puerto Rico and an independent governmental instrumentality of the Commonwealth

We have also examined a certified copy of a resolution adopted by the Board of Directors of the Authority on April 24, 2003 (the “Bond Resolution”), and other proofs submitted relative to the following described issues of Bonds (collectively, the “Bonds”):

**\$102,500,000 2003 Series A Bonds**

Serial Bond Maturity (December 1)	<u>Amount</u>	Interest <u>Rate</u>
2005	\$1,880,000	1.75%
2006	1,915,000	2.10
2007	1,955,000	2.55
2008	2,005,000	2.90
2009	2,065,000	3.20
2010	2,130,000	3.55
2011	2,205,000	3.80
2012	2,290,000	3.95
2013	2,380,000	4.00

\$7,500,000 4.375% Series A Term Bonds due December 1, 2017

\$11,640,000 4.75% Series A Term Bonds due June 1, 2023

\$4,500,00 4.75% Series A Term Bonds due December 1, 2023

\$16,000,000 3.125% Series A PAC Term Bonds due December 1, 2033

\$36,035,000 4.875% Series A Term Bonds due June 1, 2034

\$8,000,000 4.875% Series A Term Bonds due December 1, 2034

The Bonds are issuable as fully registered Bonds, without coupons, in denominations of \$5,000 each or integral multiples thereof.

The Bonds are issued under and pursuant to a trust indenture (said trust indenture, together with any amendments or supplements thereof and thereto, being herein called the “Indenture”) by and between the Authority and Banco Popular de Puerto Rico, San Juan, Puerto Rico, as trustee (the “Trustee”) for the purpose

of providing funds for the purchase of mortgage pass-through certificates guaranteed by the Government National Mortgage Association, Fannie Mae and the Federal Home Loan Mortgage Corporation (collectively, the “Mortgage Certificates”) backed by mortgage loans (the “Mortgage Loans”) made to finance the acquisition of single family residences in Puerto Rico by persons of low or moderate income (the “Program”), and to make deposits in various funds and accounts established under the Indenture.

The Bonds are limited obligations of the Authority payable solely from and secured by a pledge and assignment of undisbursed Bond proceeds, certain funds held under the Indenture, together with income earned thereon, the Mortgage Certificates and all Revenues and Principal Recoveries (as defined in the Indenture) derived therefrom (collectively referred to herein as the “Trust Estate”) pledged therefor under the Indenture.

The Bonds bear interest and are subject to redemption prior to maturity as set forth in the Indenture.

The principal of the Bonds is payable at the principal corporate trust office of the Trustee in San Juan, Puerto Rico. The interest on the Bonds is payable by check mailed to the registered owner at the address appearing on the registration books of the Authority on the relevant record date or, in certain circumstances set forth in the Indenture, by wire transfer to a designated account.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes requirements that must be met subsequent to the initial issuance and delivery of the Bonds in order that interest on the Bonds not be included, on and after the date of such issuance and delivery, in gross income for Federal income tax purposes under the Code. The Authority has established procedures in its Program documents and the Indenture to meet the requirements of the Code. The Authority has also covenanted in the Indenture to comply with the requirements of Sections 143 and 148 of the Code. In our opinion, the procedures that have been established as of the date hereof in the Authority’s Program documents and the Indenture are sufficient, if followed by the Authority, to comply with the requirements of the Code. Our opinion in paragraph 6 below is rendered on the assumption that the Authority will carry out the aforementioned procedures set forth in the Program documents and comply with the aforementioned covenants contained in the Indenture.

From such examination, and having regard to legal questions we deem relevant, we are of the opinion that:

1. The Act and the Enabling Resolution are valid, and the Authority is a duly constituted public corporation and governmental instrumentality of the Commonwealth.
2. The Bond Resolution has been duly adopted by, and is legal, valid and binding upon, the Authority.
3. The Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other party thereto, the Indenture is a legal, valid and binding agreement of the Authority, enforceable in accordance with its terms.
4. The Bonds have been duly authorized by the Authority and constitute legal, valid and binding limited obligations of the Authority payable solely from, and secured by a valid and binding pledge of, the Trust Estate, subject only to the provisions of the Indenture permitting use of such Trust Estate and its application for the purposes and on the terms and conditions provided in the Indenture.
5. The Bonds do not constitute a debt, obligation or pledge of the credit of the Commonwealth or any municipality or political subdivision thereof, or of Government Development Bank for Puerto Rico or any other public instrumentality of the Commonwealth other than the Authority as set forth above, and neither the Commonwealth nor any such municipality or political subdivision, nor Government Development Bank for Puerto Rico or any other public instrumentality of the Commonwealth, other than the Authority as set forth above, shall be liable for the payment of the Bonds or the interest thereon.

6. Under the provisions of the Acts of Congress now in force and under existing statutes and court decisions, (a)(i) assuming compliance with certain conditions imposed by applicable Federal tax law as described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to applicable Federal tax law, and (ii) interest on the Bonds is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations, and (b) the Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Bonds for certain Bondowners, and certain requirements of the Code must be satisfied after the date of issuance of the Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law.

In rendering such opinions, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and others in connection with the Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

We express no opinion regarding any other Federal, Commonwealth or state tax consequences with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state, Commonwealth or local tax law.

In rendering this opinion, we are advising you that the enforceability of the Bonds and the Indenture may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have also examined an executed Bond and in our opinion the form of said Bond and its execution are regular and proper.

Yours very truly,