

OFFICIAL STATEMENT

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

Vinson & Elkins L.L.P., Bond Counsel, is of the opinion that, subject to certain conditions described herein, (i) interest on the Series 1998/1999A Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 1998/1999A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of the federal alternative minimum tax on individuals and corporations.

NEW ISSUES - BOOK-ENTRY ONLY

\$141,970,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS Residential Mortgage Revenue Bonds

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

Interest Accrues: Series 1998 Bonds - November 1, 1998
Series 1999A Bonds - Date of Delivery

Due: As shown on inside cover page

The Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 1998A (the "Series 1998A Bonds"), the Texas Department of Housing and Community Affairs Residential Mortgage Revenue Refunding Bonds, Series 1998B (the "Series 1998B Bonds") (the Series 1998A Bonds and the Series 1998B Bonds, collectively, the "Series 1998 Bonds") and the Texas Department of Housing and Community Affairs Residential Mortgage Revenue Refunding Bonds, Series 1999A (the "Series 1999A Bonds") (the Series 1998 Bonds and the Series 1999A Bonds collectively, the "Series 1998/1999A Bonds") are issuable by the Texas Department of Housing and Community Affairs (the "Department") only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 1998/1999A Bonds. The Series 1998/1999A Bonds will be available to purchasers only in book-entry form in denominations of \$5,000 or any integral multiple thereof. For as long as Cede & Co. is the exclusive registered owner of the Series 1998/1999A Bonds, the principal of or redemption price, and interest on the Series 1998/1999A Bonds will be payable by Bank One, Texas, NA, Fort Worth, Texas, as Trustee, to DTC, which will be responsible for making such payments to DTC Participants (as defined herein), for subsequent remittance to the owners of beneficial interests in the Series 1998/1999A Bonds. The purchasers of the Series 1998/1999A Bonds will not receive certificates representing their beneficial ownership interest. See "THE SERIES 1998/1999A BONDS - DTC and Book-Entry."

The Series 1998/1999A Bonds will accrue interest from the dates shown above, until their respective maturities or prior redemption at the respective per annum rates of interest set forth on the inside cover page hereof. Interest on the Series 1998/1999A Bonds will be payable to DTC on July 1, 1999, and semi-annually on each January 1 and July 1 thereafter until maturity or prior redemption thereafter, all as more fully described on the inside cover page hereof.

THE SERIES 1998/1999A BONDS ARE SUBJECT TO SPECIAL REDEMPTION, OPTIONAL REDEMPTION, AND MANDATORY SINKING FUND REDEMPTION ON THE DATES AND AT THE REDEMPTION PRICES, INCLUDING REDEMPTION AT PAR UNDER CERTAIN CIRCUMSTANCES, WHICH ARE MORE FULLY DESCRIBED HEREIN. See "THE SERIES 1998/1999A BONDS -- Redemption Provisions."

The Series 1998A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates (the "Mortgage Certificates") backed by qualifying FHA-insured or VA-or RD-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. For certain geographic and income restrictions, see "THE PROGRAM AND THE MORTGAGE LOANS." The Mortgage Certificates will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("GNMA") (the "GNMA Certificates") or the Federal National Mortgage Association ("Fannie Mae") (the "Fannie Mae Certificates"). See APPENDIX C-1 and APPENDIX C-2. The proceeds of the Series 1998B Bonds will be used for the purpose of refunding and redeeming an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT), thereby making additional funds available to acquire Mortgage Certificates. Proceeds of the Series 1999A Bonds, together with other funds available under the Trust Indenture, will be used to refund all of the outstanding Texas Housing Agency Residential Mortgage Revenue Bonds, Series 1987A and Series 1987D, including the redemption premium therefor. The Series 1998/1999A Bonds, the Prior Bonds (as defined herein), and, unless subordinated, all Bonds subsequently issued under the Trust Indenture are equally and ratably secured by the Trust Estate (as defined herein) held by the Trustee under the Trust Indenture. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE."

THE SERIES 1998/1999A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE OF TEXAS (THE "STATE"), OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GNMA, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 1998/1999A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GNMA AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GNMA CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 1998/1999A BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

In connection with the issuance of the Series 1998/1999A Bonds, the Department has proposed certain amendments to the Trust Indenture. By purchase of a Series 1998/1999A Bond, the purchaser shall be deemed to have consented to such amendments, subject to the purchaser's right of revocation. See "PROPOSED AMENDMENTS TO TRUST INDENTURE."

The Series 1998/1999A Bonds are offered when, as, and if issued by the Department and received by the Underwriters. Delivery of the Series 1998/1999A Bonds is subject to approval of the legality thereof by Vinson & Elkins L.L.P., Bond Counsel, and by the Attorney General of the State of Texas, and certain other conditions. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq. and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Mayor Day Caldwell & Keeton, L.L.P. and Wickliff & Hall, P.C. It is expected that the Series 1998 Bonds will be available for delivery to DTC in book-entry form only on or about December 3, 1998 and that the Series 1999A Bonds will be available for delivery to DTC in book-entry only form on or about May 20, 1999.

November 6, 1998

**BEAR STEARNS & CO. INC.
JOHN NUVEEN & CO. INCORPORATED**

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

**MORGAN KEEGAN & COMPANY, INC.
SOUTHWESTERN CAPITAL MARKETS, INC.**

MATURITY SCHEDULE

\$102,055,000 Series 1998A Bonds

\$18,980,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
July 1, 2002	\$ 935,000	4.05%
January 1, 2003	955,000	4.15
July 1, 2003	975,000	4.15
January 1, 2004	995,000	4.25
July 1, 2004	1,015,000	4.25
January 1, 2005	1,035,000	4.35
July 1, 2005	1,060,000	4.35
January 1, 2006	1,085,000	4.45
July 1, 2006	1,105,000	4.45
January 1, 2007	1,130,000	4.55
July 1, 2007	1,155,000	4.55
January 1, 2008	1,185,000	4.65
July 1, 2008	1,210,000	4.65
January 1, 2009	1,240,000	4.75
July 1, 2009	1,270,000	4.75
January 1, 2010	1,300,000	4.85
July 1, 2010	1,330,000	4.85

Price: 100%

\$17,155,000 5.25% Term Bonds due July 1, 2018 Price 100%
\$10,000,000 5.35% Term Bonds due July 1, 2029 Price 100%
\$25,000,000 4.55% Term Bonds due January 1, 2030 Price 100%
\$15,920,000 5.35% Term Bonds due July 1, 2030 Price 100%
\$15,000,000 5.25% Term Bonds due January 1, 2031 Price 100%

(Accrued Interest From November 1, 1998 to be added)

\$14,300,000 Series 1998B Bonds

\$9,300,000 5.30% Term Bonds due January 1, 2022 Price 100%
\$5,000,000 5.30% Term Bonds due July 1, 2022 Price 100%

(Accrued Interest From November 1, 1998 to be added)

\$25,615,000 Series 1999A Bonds

\$20,000,000 4.80% Term Bonds due July 1, 2018 Price 100%
\$5,615,000 5.50% Term Bonds due January 1, 2021 Price 100%

(No Accrued Interest)

This Official Statement does not constitute, and is not to be used in connection with, an offer to sell or the solicitation of an offer to buy the Series 1998/1999A Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 1998/1999A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1998/1999A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 1998/1999A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED HEREIN, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

Relating to

\$141,970,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Residential Mortgage Revenue Bonds

\$102,055,000 Series 1998A

\$14,300,000 Series 1998B

\$25,615,000 Series 1999A

INTRODUCTION

This Official Statement provides certain information concerning the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of its Residential Mortgage Revenue Bonds, Series 1998A (the "Series 1998A Bonds"), Residential Mortgage Revenue Refunding Bonds, Series 1998B (the "Series 1998B Bonds"), and Residential Mortgage Revenue Refunding Bonds, Series 1999A (the "Series 1999A Bonds"). The Series 1998A Bonds and Series 1998B Bonds are referred to collectively herein as the "Series 1998 Bonds" and the Series 1998 Bonds and the Series 1999A Bonds are referred to collectively herein as the "Series 1998/1999A Bonds." Terms used but not otherwise defined herein shall have the respective meanings for such terms as set forth in "APPENDIX A - GLOSSARY."

The Department, a public and official governmental agency of the State of Texas (the "State"), was created and organized pursuant to and in accordance with the provisions of the Act of June 16, 1991, Ch. 762, 1991 Tex. Sess. Law Serv. 2672, Section 2 of which has been codified as Chapter 2306, Texas Government Code, and Article 4413(501), Vernon's Annotated Texas Civil Statutes, as amended by the 73rd Legislative Session and by the 75th Legislative Session (together with other laws of the State applicable to the Department, collectively, the "Act") for the purpose of, among other things, financing sanitary, decent and safe housing for individuals and families of low and very low income and families of moderate income. The Department is the successor agency to the Texas Housing Agency (the "Agency") and the Texas Department of Community Affairs (the "TDCA"), both of which were abolished by the Act and all functions and obligations of which were transferred to the Department pursuant to the Act. Under the Act, the Department may issue bonds, notes and other obligations to finance or refinance residential housing and multi-family developments located in the State of Texas and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. See "THE DEPARTMENT."

The Series 1998/1999A Bonds are authorized to be issued pursuant to the Act, a resolution adopted by the Governing Board of the Department on October 16, 1998 (the "Board Resolution"), a Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987 (the "Master Indenture" and as amended and supplemented from time to time, collectively, the "Trust Indenture") between the Agency or the Department, as the case may be, and MTrust Corp., or its successor as trustee, Bank One, Texas, N.A., Fort Worth, Texas (the "Trustee"), and an Eighth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Eighth Supplemental Indenture") with respect to the Series 1998A Bonds, a Ninth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Ninth Supplemental Indenture") with respect to the Series 1998B Bonds, and a Tenth Supplemental Residential Mortgage Revenue Bond Trust Indenture (the "Tenth Supplemental Indenture") with respect to the Series 1999A Bonds, each dated as of November 1, 1998 (collectively, the "Series 1998/1999A Supplements"). The Trust Indenture authorizes the Department to issue bonds to provide funds to acquire or refinance residential mortgage loans or participations therein ("Mortgage Loans") which are made to eligible borrowers, as determined from time to time by the Department, to refund Outstanding Bonds

issued under the Trust Indenture or certain other bonds of the Department or the Agency, to fund certain reserves, and to pay costs associated therewith. The Department has previously issued seven prior series of residential mortgage revenue bonds (the "Prior Bonds") under the Trust Indenture of which \$86,540,000 in aggregate principal amount was Outstanding as of July 31, 1998. See "SECURITY FOR THE BONDS -- Prior Bonds." The Series 1998/1999A Bonds, the Prior Bonds and, unless subordinated, all bonds subsequently issued pursuant to the Trust Indenture (collectively, the "Bonds") are equally and ratably secured by the Trust Estate held by the Trustee pursuant to the Trust Indenture. See "THE TRUST INDENTURE" and "SECURITY FOR THE BONDS - Additional Bonds."

The Series 1998A Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage pass-through certificates (the "1998 Mortgage Certificates") guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association ("GNMA") or the Federal National Mortgage Association ("Fannie Mae") which represent beneficial ownership of pools of mortgage loans (the "1998 Mortgage Loans") and for paying a portion of the Costs of Issuance of the Series 1998/1999A Bonds. The 1998 Mortgage Certificates together with the mortgage pass-through certificates acquired with proceeds of the Prior Bonds or Bonds subsequently issued pursuant to the Trust Indenture are referred to herein as the "Mortgage Certificates." The Series 1998B Bonds are being issued to refund and redeem an equal amount of the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A (AMT) (the "Refunded Notes"). Twenty percent (20%) of the proceeds of the Series 1998A Bonds will be set aside for at least one year for the purpose of making Mortgage Loans to borrowers in certain federally designated targeted areas. Thirty percent (30%) of the funds made available through the issuance of the Series 1998/1999A Bonds will be made available for a period of one year (or such longer period as determined by the Department) to borrowers of very low income (60% of applicable median family income), with the remaining funds available for borrowers with income of up to 115% of applicable median family income (140% in certain targeted areas). Further, for a period of twelve months, twenty-five percent (25%) of the funds made available through the issuance of the Series 1998/1999A Bonds will be reserved for Mortgage Loans in certain rural and underserved areas. See "THE PROGRAM AND THE MORTGAGE LOANS - Targeted Area Reservation, - Very Low Income Reservation, and - Rural and Underserved Area Reservation" and "ASSUMPTIONS AND RISKS - Non-Origination of Mortgage Loans." The proceeds of the Series 1999A Bonds, together with other funds available under the Trust Indenture, will be deposited and applied for the primary purpose of refunding and redeeming, within 90 days after the delivery thereof, all of the outstanding Texas Housing Agency Residential Mortgage Revenue Bonds, Series 1987A (the "Series 1987A Bonds") and Series 1987D (the "Series 1987D Bonds") (the Series 1987A Bonds and Series 1987D Bonds, collectively, the "Refunded Bonds"). Upon such refunding, Mortgage Loans made with proceeds of the Series 1987A Bonds (the "1987A Mortgage Loans") and Mortgage Certificates purchased with proceeds of the Series 1987D Bonds and with moneys in the Debt Service Reserve Fund Account relating to the Series 1987A Bonds (the "1987D Mortgage Certificates") will be transferred (the "1987 Transferred Mortgage Assets") to the 1999A Mortgage Loan Account (the "1999A Mortgage Loan Account"). All Mortgage Loan Principal Prepayments received from 1987 Transferred Mortgage Assets between October 1, 1998 and May 20, 1999 up to an amount equal to \$2,300,000 will be available to recycle pursuant to Program 54 (as defined herein), into Mortgage Certificates backed by newly originated Mortgage Loans (the "1987 Recycled Mortgage Certificates") having the same interest rate and terms as the Mortgage Loans included in the 1998 Mortgage Certificates.

The Series 1998/1999A Bonds are on a parity in all respects with all outstanding Prior Bonds and, unless subordinated, any Bonds subsequently issued. The Prior Bonds are payable solely from and are secured by a pledge of and lien on the Revenues, Mortgages, Mortgage Loans (including Mortgage Certificates), Investment Securities, moneys held in the Funds (excluding the Rebate Fund) and other property pledged under the Trust Indenture (collectively, the "Trust Estate"). Proceeds of the Series 1987A Bonds were used to acquire FHA-insured Mortgage Loans which are not backed by Mortgage Certificates. The Series

1987A Bonds and Series 1987D Bonds are additionally secured by the Self-Insurance Fund as further described under "APPENDIX B -- Mortgage Pool Self Insurance Reserve." Upon redemption of the Series 1987A Bonds and the Series 1987D Bonds, the Self-Insurance Fund may be released from the lien of the Trust Indenture at the discretion of the Department. The proceeds of the Prior Bonds, other than the Series 1987A Bonds, were used to purchase Mortgage Certificates. There is no requirement that proceeds of subsequent issues of Bonds be used to purchase Mortgage Certificates. All payments with respect to principal of and interest on Mortgage Loans (net of servicing fees) and on Mortgage Certificates (net of servicing and guaranty fees) received by the Department and the earnings on investments of Funds and Accounts held pursuant to the Trust Indenture constitute Revenues. The pledge of and lien on the Trust Estate is subject to discharge if moneys or qualified securities sufficient to provide for the payment of all Outstanding Bonds are deposited and held in trust for such payment. See "SECURITY FOR THE BONDS."

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. The Trust Indenture requires that the Debt Service Reserve Fund be maintained in an amount at least equal to four percent (4%) of the aggregate principal amount of the Bonds outstanding (the "Debt Service Reserve Fund Requirement") and that the Mortgage Reserve Fund be maintained in an amount at least equal to one and one-half percent (1.5%) of the principal amount of Bonds outstanding (the "Mortgage Reserve Fund Requirement"). The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 1998/1999A Bonds or any other Outstanding Bonds. As of July 31, 1998, the Debt Service Reserve Fund Requirement for the Bonds was \$3,407,000, and \$3,778,104 was on deposit in the Debt Service Reserve Fund and the Mortgage Reserve Fund Requirement for the Bonds was \$1,277,625 and \$1,309,584 was on deposit in the Mortgage Reserve Fund. As of such date, substantially all of the moneys on deposit in such Funds were invested in Mortgage Certificates. See "SECURITY FOR THE BONDS" and "THE TRUST INDENTURE" herein. For information regarding proposed changes to the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement for the Series 1998/1999A Bonds and subsequent issues of Bonds, see "PROPOSED TRUST INDENTURE AMENDMENTS."

THE SERIES 1998/1999A BONDS ARE LIMITED OBLIGATIONS OF THE DEPARTMENT AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THE PAYMENT THEREOF AS MORE FULLY DESCRIBED HEREIN. NEITHER THE STATE NOR ANY AGENCY OF THE STATE, OTHER THAN THE DEPARTMENT, NOR THE UNITED STATES OF AMERICA OR ANY AGENCY, DEPARTMENT OR OTHER INSTRUMENTALITY THEREOF, INCLUDING GNMA, NOR FANNIE MAE, IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 1998/1999A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE UNITED STATES OF AMERICA IS PLEDGED, GIVEN OR LOANED TO SUCH PAYMENT. THE DEPARTMENT HAS NO TAXING POWER. GNMA AND FANNIE MAE GUARANTEE ONLY THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE GNMA CERTIFICATES AND FANNIE MAE CERTIFICATES, RESPECTIVELY, WHEN DUE AND DO NOT GUARANTEE THE PAYMENT OF THE SERIES 1998/1999A BONDS OR ANY OTHER OBLIGATIONS ISSUED BY THE DEPARTMENT.

There follows in this Official Statement a brief description of the plan of finance, the Department and its bond programs, together with summaries of certain terms of the Series 1998/1999A Bonds, the Trust Indenture, and certain provisions of the Act, as well as other matters. All references herein to the Act, the Trust Indenture, and other agreements are qualified in their entirety by reference to each such document, copies of which are available from the Department, and all references to the Series 1998/1999A Bonds are qualified in

their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

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

PLAN OF FINANCE

Proceeds of the Series 1998A Bonds are to be used to fund the 1998/1999A Mortgage Loan Account and used to purchase Mortgage Certificates and to pay a portion of the costs of issuance of the Series 1998/1999A Bonds. See "SOURCES AND USES OF FUNDS" herein.

Proceeds of the Series 1998B Bonds are to be applied to refund and redeem an equal amount of the Refunded Notes within ninety (90) days after the date of issuance of the Series 1998B Bonds. See "SOURCES AND USES OF FUNDS" herein.

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

SOURCES AND USES OF FUNDS

The sources of funds and the uses thereof in connection with the Series 1998/1999A Bonds (exclusive of the accrued interest on the Series 1998 Bonds which is to be deposited in the 1998/1999A Revenue Account) are expected to be approximately as set forth below.

Sources:

Bond Proceeds -- Series 1998A Bonds	\$102,055,000.00
Bond Proceeds -- Series 1998B Bonds	14,300,000.00
Bond Proceeds -- Series 1999A Bonds	25,615,000.00
Moneys Available under the Refunded Notes	14,300,000.00
Moneys Available under the Trust Indenture	3,444,184.33
Lender Participation Fees	<u>822,479.33</u>
Total Sources	\$160,536,663.66

Uses:

Redemption of Refunded Notes	\$14,300,000.00
Redemption of Refunded Bonds ⁽¹⁾	26,120,500.00
Deposit to 1998/1999A Mortgage Loan Account	111,963,911.17
Deposit to Debt Service Reserve Fund ⁽²⁾	4,654,200.00
Deposit to Mortgage Reserve Fund ⁽²⁾	1,745,325.00
Underwriters' Compensation	1,107,988.66
Costs of Issuance	<u>644,738.83</u>
Total Uses	\$160,536,663.66

⁽¹⁾ Includes redemption premium.

⁽²⁾ To be used to purchase 1998 Mortgage Certificates.

THE SERIES 1998/1999A BONDS

General

The Series 1998/1999A Bonds are issuable only as fully registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as the Bond Depository for the Series 1998/1999A Bonds. The Series 1998/1999A Bonds will be available to purchasers in book-entry form only in denominations of \$5,000 or any integral multiple thereof, as more fully described herein. The principal or redemption price of, and interest on the Series 1998/1999A Bonds will be payable by the Trustee to DTC, which will be responsible for making such payments to DTC Participants (hereinafter defined) for subsequent remittance to the owners of beneficial interests in the Series 1998/1999A Bonds or their nominees. See "THE SERIES 1998/1999A BONDS - DTC and Book-Entry."

Interest

The Series 1998/1999A Bonds will bear or accrue interest from the dates, until maturity or prior redemption, at the respective per annum rates of interest set forth on the inside cover hereof for each of the respective issues. Interest accrued on the Series 1998/1999A Bonds will be payable on July 1, 1999, and semiannually on each January 1 and July 1 thereafter until maturity or prior redemption. Interest on the Series 1998/1999A Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Redemption Provisions

The Series 1998/1999A Bonds are subject to special redemption, optional redemption, and mandatory sinking fund redemption at various times prior to their scheduled maturities at various redemption prices as described below. **The Department anticipates that substantially all of the Series 1998/1999A Bonds will be redeemed prior to their scheduled maturities as the result of the receipt by the Department of amounts representing Mortgage Loan Principal Prepayments and from certain excess Revenues transferred from the Residual Revenues Fund.**

Special Redemption from Unexpended Proceeds

The Series 1998/1999A Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to but not including the date of redemption, without premium, from amounts: (i) representing lendable proceeds of the Series 1998 Bonds, if any, that are not to be used to purchase 1998 Mortgage Certificates; and (ii) up to \$2,300,000 of funds attributable to the Series 1999A Bonds that are not to be used to purchase 1987 Recycled Mortgage Certificates (as defined below).

With respect to such redemption, moneys shall be allocated to the redemption of their attributable Series on a pro rata basis and among outstanding maturities within each Series (unless the Trustee is otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate) on a pro rata basis.

Special Redemption From Mortgage Loan Principal Prepayments

The Series 1998/1999A Bonds are subject to special redemption, at any time and from time to time, prior to their stated maturities in whole or in part at a redemption price equal to 100% of the principal amount

thereof plus accrued interest thereon to, but not including, the date of redemption, without premium from amounts representing: (i) all Mortgage Loan Principal Prepayments received from 1998 Mortgage Certificates (the "1998 Mortgage Loan Principal Prepayments"), (ii) all Mortgage Loan Principal Prepayments received on or after May 1, 1999, from 1987 Transferred Mortgage Assets, (iii) Mortgage Loan Principal Prepayments, if any, in excess of \$2,300,000 received between October 1, 1998 and May 20, 1999 from 1987 Transferred Mortgage Assets, and (iv) all Mortgage Loan Principal Prepayments received from 1987 Recycled Mortgage Certificates (as defined below) (amounts described in clauses (ii), (iii), and (iv) above, collectively, the "1987 Mortgage Loan Principal Prepayments"). See "*Description of 1987 Transferred Mortgage Assets and 1987 Recycled Mortgage Certificates.*"

1998 Mortgage Loan Principal Prepayments. All 1998 Mortgage Loan Principal Prepayments will be applied first to redeem the Series 1998A Bonds maturing January 1, 2030 (the "January 1, 2030 Term Bonds"), in amounts such that the aggregate principal amount of the January 1, 2030 Term Bonds Outstanding after such redemption as of each date set forth below is not less than the corresponding amount set forth below:

<u>Semiannual Period</u> <u>Ending</u>	<u>January 1, 2030</u> <u>Term Bonds Outstanding</u>
January 1, 2000	\$24,840,000
July 1, 2000	24,365,000
January 1, 2001	23,410,000
July 1, 2001	21,950,000
January 1, 2002	20,020,000
July 1, 2002	17,775,000
January 1, 2003	15,400,000
July 1, 2003	13,070,000
January 1, 2004	10,830,000
July 1, 2004	8,675,000
January 1, 2005	6,605,000
July 1, 2005	4,620,000
January 1, 2006	2,710,000
July 1, 2006	880,000
January 1, 2007	-0-

If the Department is unable to purchase Mortgage Certificates from proceeds allocable to the Series 1998 Bonds for any reason, the Department may use the unexpended proceeds of Bonds of such Series to redeem the Series 1998 Bonds pursuant to a special redemption described above under the subcaption "*Special Redemption from Unexpended Proceeds*". To the extent the January 1, 2030 Term Bonds are so redeemed, the Department shall reduce the amounts shown in the table above by an amount equal to the amount of such redemption, on a pro rata basis.

Any 1998 Mortgage Loan Principal Prepayments received that are not required to be used to redeem the January 1, 2030 Term Bonds, as described above, shall be used by the Department to redeem Series 1998 Bonds on a pro rata basis (*provided* that the January 1, 2030 Term Bonds shall not be so redeemed until no other Series 1998 Bonds remain Outstanding and the Series 1998A Bonds maturing January 1, 2031 shall not be so redeemed prior to January 1, 2009 unless redemption thereof is required to preserve the tax-exempt status of the Series 1998/1999A Bonds) unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, so long as the alternative selection instructions are not inconsistent with the proviso in this paragraph.

1987 Mortgage Loan Principal Prepayments. All 1987 Mortgage Loan Principal Prepayments will be applied first to redeem the Series 1999A Bonds maturing on July 1, 2018 (the "Series 1999A July 1, 2018 Term Bonds"), in amounts such that the aggregate principal amount of the July 1, 2018 Term Bonds Outstanding after such redemption as of each date set forth below is not less than the corresponding amount set forth below:

<u>Semiannual Period Ending</u>	<u>Series 1999A July 1, 2018 Term Bonds Outstanding</u>
January 1, 2000	\$18,185,000
July 1, 2000	16,480,000
January 1, 2001	14,875,000
July 1, 2001	13,365,000
January 1, 2002	11,950,000
July 1, 2002	10,625,000
January 1, 2003	9,390,000
July 1, 2003	8,250,000
January 1, 2004	7,195,000
July 1, 2004	6,220,000
January 1, 2005	5,325,000
July 1, 2005	4,500,000
January 1, 2006	3,740,000
July 1, 2006	3,045,000
January 1, 2007	2,415,000
July 1, 2007	1,840,000
January 1, 2008	1,330,000
July 1, 2008	865,000
January 1, 2009	455,000
July 1, 2009	95,000
January 1, 2010	-0-

If the Department is unable to purchase 1987 Recycled Mortgage Certificates (as defined below) from amounts available for such purpose, the Department may use such monies to redeem the Series 1999A Bonds pursuant to a special redemption described above under the subcaption "*Special Redemption from Unexpended Proceeds*". To the extent the Series 1999A July 1, 2018 Term Bonds are so redeemed, the Department shall reduce the amounts shown in the table above by an amount equal to the amount of such redemption on a pro rata basis. Amounts available to purchase 1987 Recycled Mortgage Certificates will be all Mortgage Loan Principal Prepayments received from 1987 Transferred Mortgage Assets between October 1, 1998 and May 20, 1999 up to an amount equal to \$2,300,000.

Any 1987 Mortgage Loan Principal Prepayments received that are not required to be used to redeem the Series 1999A July 1, 2018 Term Bonds, as described above, shall be used by the Department to redeem the Series 1999A Bonds on a pro rata basis (*provided* that the Series 1999A July 1, 2018 Term Bonds shall not be so redeemed until no other Series 1999A Bonds remain Outstanding) unless otherwise instructed by the Department pursuant to a Letter of Instructions accompanied by a Cashflow Certificate, so long as the alternative selection instructions are not inconsistent with the proviso in this paragraph

Description of 1987 Transferred Mortgage Assets and 1987 Recycled Mortgage Certificates. The following table reflects information with respect to the 1987 Transferred Mortgage Assets as of September 30, 1998:

Series	Aggregate Outstanding Principal Balance	Number of Outstanding Mortgage Loans	Weighted Average Coupon	Weighted Average Maturity	Mortgage Insurance Type	Prepayment ⁽¹⁾ Speed (% of PSA)
1987A	\$7,464,091	172	9.55%	222 mos.	FHA Insured Mortgage Loans	166
1987D	\$20,183,681 ⁽²⁾	579	8.35%	232 mos.	GNMA Mortgage Certificates	175
Total	\$27,639,511	751	8.67%	229 mos.		173

⁽¹⁾ Based on actual Mortgage Loan Principal Prepayments received between September 30, 1997 and September 30, 1998. There is no assurance that such prepayment speeds will occur in the future.

⁽²⁾ Includes \$546,309 of GNMA Certificates held in the 1987A Debt Service Reserve Account

All Mortgage Loan Principal Prepayments received from 1987 Transferred Mortgage Assets between October 1, 1998 and May 20, 1999 up to an amount equal to \$2,300,000 will be available to recycle pursuant to Program 54 (as defined herein), into Mortgage Certificates backed by newly originated Mortgage Loans (the "1987 Recycled Mortgage Certificates") having the same interest rate and terms as the Mortgage Loans included in the 1998 Mortgage Certificates.

Redemption Amounts and Prepayment Standard. The redemption amounts for the January 1, 2030 Term Bonds are based on the assumptions of (i) receipt of 1998 Mortgage Loan Principal Prepayments equal to 100 percent of the Public Securities Association's standard prepayment mode for 30-year mortgage loans (as further described below); and (ii) that 100 percent of the moneys on deposit in the 1998 Mortgage Loan Account attributable to the proceeds of the Series 1998 Bonds, will be used to purchase 1998 Mortgage Certificates. The redemption amounts for the Series 1999A July 1, 2018 Term Bonds are based on the assumptions of (i) receipt of 1987 Mortgage Loan Principal Prepayments equal to 200 percent and 100 percent, respectively, of the Public Securities Association's standard prepayment mode for 30-year mortgage loans with respect to 1987 Transferred Mortgage Assets and 1987 Recycled Mortgage Certificates; and (ii) that 1987 Mortgage Loan Principal Prepayments will be received with respect to 1987 Transferred Mortgage Assets between October 1, 1998 and May 20, 1999 in an amount equal to \$2,300,000 and 100% of such amounts will be used to purchase 1987 Recycled Mortgage Certificates. See "*Description of 1987 Transferred Mortgage Assets and 1987 Recycled Mortgage Certificates.*"

Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The Public Securities Association's standard prepayment model ("PSA") represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. PSA does not purport to be either an historical description of the prepayment of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the 1987 Transferred Mortgage Assets, the 1987 Recycled Mortgage Certificates or the 1998 Mortgage Certificates. One hundred percent PSA assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans, 100 percent PSA assumes a constant prepayment rate of six percent per year. Multiples will be calculated from this prepayment rate speed e.g., 200 PSA assumes prepayment rates will be 0.4 percent per year on month one, 0.8 percent per year in month two, reaching 12 percent per year in month 30 and remaining constant at 12 percent per year thereafter.

Special Redemption From Excess Revenues

The Series 1998/1999A Bonds are subject to redemption, at any time and from time to time, prior to their stated maturities in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to but not including the date of redemption, without premium, from amounts in the Residual Revenues Fund, whether or not derived in connection with the Series 1998/1999A Bonds.

With respect to such redemptions, moneys shall be applied on a pro rata basis among all maturities of the Series 1998/1999A Bonds; *provided* that: (i) the January 1, 2030 Term Bonds shall not be redeemed to amounts below the applicable amounts shown in the table above under the subcaption "*1998 Mortgage Loan Principal Prepayments*" unless no other Series 1998A Bonds or Series 1998B Bonds, other than the January 1, 2030 Term Bonds, remain outstanding; (ii) the Series 1999A July 1, 2018 Term Bonds shall not be redeemed to amounts below the applicable amounts shown in the table above under the subcaption "*1997 Mortgage Loan Principal Prepayments*" unless no other Series 1999A Bonds remain outstanding; and (iii) the Series 1998A Bonds maturing January 1, 2031 shall not be redeemed prior to January 1, 2009 unless redemption thereof is required to preserve the tax-exempt status of the Series 1998/1999A Bonds; *provided* further, in the alternative, that the Department may file with the Trustee a Letter of Instructions specifying either a different order for selecting Series 1998/1999A Bonds, or a different Series of Bonds to be redeemed, accompanied by a Cashflow Certificate, so long as such alternative selection is not inconsistent with the first proviso of this paragraph.

Optional Redemption

The Series 1998/1999A Bonds are subject to redemption prior to maturity, in whole or in part, at any time and from time to time, on and after January 1, 2009, at the option of the Department, after giving notice as provided in the Trust Indenture, at the Redemption Price set forth below (expressed as a percentage of the principal of the Series 1998/1999A Bonds or portions thereof to be redeemed) plus accrued interest to but not including the redemption date, as follows:

<u>Redemption Period</u>	<u>Redemption Price</u>
January 1, 2009 through December 31, 2009	101 %
January 1, 2010 through December 31, 2010	100½
January 1, 2011 and thereafter	100

Mandatory Sinking Fund Redemption

The Series 1998/1999A Bonds maturing on the dates specified below are subject to scheduled mandatory redemption prior to maturity in the principal amounts and on the dates set forth in the following tables, at a redemption price equal to the principal amount of Series 1998/1999A Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date:

SERIES 1998A BONDS

Series 1998A Bonds Maturing July 1, 2018

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2011	\$ 875,000	January 1, 2015	\$1,080,000
July 1, 2011	900,000	July 1, 2015	1,105,000
January 1, 2012	920,000	January 1, 2016	1,135,000
July 1, 2012	950,000	July 1, 2016	1,170,000
January 1, 2013	970,000	January 1, 2017	1,195,000
July 1, 2013	995,000	July 1, 2017	1,230,000
January 1, 2014	1,025,000	January 1, 2018	1,260,000
July 1, 2014	1,050,000	July 1, 2018	1,295,000

Series 1998A Bonds Maturing July 1, 2029

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
July 1, 2019	\$ 295,000	January 1, 2025	\$ 520,000
January 1, 2020	305,000	July 1, 2025	530,000
July 1, 2020	310,000	January 1, 2026	545,000
January 1, 2021	320,000	July 1, 2026	560,000
July 1, 2021	325,000	January 1, 2027	575,000
January 1, 2022	335,000	July 1, 2027	585,000
July 1, 2022	345,000	January 1, 2028	605,000
January 1, 2023	470,000	July 1, 2028	615,000
July 1, 2023	480,000	January 1, 2029	635,000
January 1, 2024	495,000	July 1, 2029	645,000
July 1, 2024	505,000		

Series 1998A Bonds Maturing January 1, 2030

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2019	\$ 770,000	January 1, 2025	\$1,180,000
July 1, 2019	675,000	July 1, 2025	1,210,000
January 1, 2020	685,000	January 1, 2026	1,240,000
July 1, 2020	710,000	July 1, 2026	1,265,000
January 1, 2021	725,000	January 1, 2027	1,300,000
July 1, 2021	745,000	July 1, 2027	1,335,000
January 1, 2022	760,000	January 1, 2028	1,365,000
July 1, 2022	785,000	July 1, 2028	1,400,000
January 1, 2023	1,075,000	January 1, 2029	1,435,000
July 1, 2023	1,095,000	July 1, 2029	1,470,000
January 1, 2024	1,120,000	January 1, 2030	1,505,000
July 1, 2024	1,150,000		

Series 1998A Bonds Maturing
July 1, 2030

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
July 1, 2019	\$ 350,000	July 1, 2025	\$ 630,000
January 1, 2020	360,000	January 1, 2026	645,000
July 1, 2020	370,000	July 1, 2026	665,000
January 1, 2021	380,000	January 1, 2027	680,000
July 1, 2021	390,000	July 1, 2027	700,000
January 1, 2022	400,000	January 1, 2028	715,000
July 1, 2022	410,000	July 1, 2028	735,000
January 1, 2023	555,000	January 1, 2029	750,000
July 1, 2023	575,000	July 1, 2029	775,000
January 1, 2024	585,000	January 1, 2030	1,455,000
July 1, 2024	600,000	July 1, 2030	2,580,000
January 1, 2025	615,000		

Series 1998A Bonds Maturing
January 1, 2031

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2019	\$ 520,000	July 1, 2025	\$ 485,000
July 1, 2019	265,000	January 1, 2026	495,000
January 1, 2020	275,000	July 1, 2026	510,000
July 1, 2020	280,000	January 1, 2027	520,000
January 1, 2021	285,000	July 1, 2027	530,000
July 1, 2021	295,000	January 1, 2028	545,000
January 1, 2022	305,000	July 1, 2028	560,000
July 1, 2022	310,000	January 1, 2029	570,000
January 1, 2023	425,000	July 1, 2029	585,000
July 1, 2023	435,000	January 1, 2030	605,000
January 1, 2024	450,000	July 1, 2030	1,070,000
July 1, 2024	460,000	January 1, 2031	3,750,000
January 1, 2025	470,000		

SERIES 1998B BONDS

Series 1998B Bonds Maturing
January 1, 2022

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2011	\$ 335,000	January 1, 2017	\$ 450,000
July 1, 2011	340,000	July 1, 2017	460,000
January 1, 2012	350,000	January 1, 2018	475,000
July 1, 2012	355,000	July 1, 2018	485,000
January 1, 2013	365,000	January 1, 2019	525,000
July 1, 2013	375,000	July 1, 2019	360,000
January 1, 2014	385,000	January 1, 2020	370,000
July 1, 2014	395,000	July 1, 2020	375,000
January 1, 2015	410,000	January 1, 2021	385,000
July 1, 2015	420,000	July 1, 2021	400,000
January 1, 2016	430,000	January 1, 2022	415,000
July 1, 2016	440,000		

Series 1998B Bonds Maturing
July 1, 2022

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2011	\$ 155,000	January 1, 2017	\$ 215,000
July 1, 2011	160,000	July 1, 2017	220,000
January 1, 2012	165,000	January 1, 2018	225,000
July 1, 2012	170,000	July 1, 2018	230,000
January 1, 2013	175,000	January 1, 2019	250,000
July 1, 2013	180,000	July 1, 2019	170,000
January 1, 2014	185,000	January 1, 2020	175,000
July 1, 2014	190,000	July 1, 2020	180,000
January 1, 2015	190,000	January 1, 2021	185,000
July 1, 2015	195,000	July 1, 2021	185,000
January 1, 2016	200,000	January 1, 2022	185,000
July 1, 2016	205,000	July 1, 2022	610,000

SERIES 1999A BONDS

Series 1999A Bonds Maturing
July 1, 2018

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2000	\$ 320,000	July 1, 2009	\$ 515,000
July 1, 2000	335,000	January 1, 2010	525,000
January 1, 2001	345,000	July 1, 2010	540,000
July 1, 2001	355,000	January 1, 2011	555,000
January 1, 2002	360,000	July 1, 2011	570,000
July 1, 2002	370,000	January 1, 2012	585,000
January 1, 2003	380,000	July 1, 2012	590,000
July 1, 2003	390,000	January 1, 2013	605,000
January 1, 2004	400,000	July 1, 2013	620,000
July 1, 2004	405,000	January 1, 2014	640,000
January 1, 2005	415,000	July 1, 2014	655,000
July 1, 2005	425,000	January 1, 2015	670,000
January 1, 2006	435,000	July 1, 2015	680,000
July 1, 2006	445,000	January 1, 2016	700,000
January 1, 2007	460,000	July 1, 2016	715,000
July 1, 2007	470,000	January 1, 2017	735,000
January 1, 2008	480,000	July 1, 2017	755,000
July 1, 2008	495,000	January 1, 2018	770,000
January 1, 2009	500,000	July 1, 2018	790,000

Series 1999A Bonds Maturing
January 1, 2021

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
January 1, 2000	\$ 20,000	July-1, 2010	\$ 30,000
July 1, 2000	15,000	January 1, 2011	30,000
January 1, 2001	15,000	July 1, 2011	25,000
July 1, 2001	15,000	January 1, 2012	25,000
January 1, 2002	15,000	July 1, 2012	35,000
July 1, 2002	15,000	January 1, 2013	35,000
January 1, 2003	15,000	July 1, 2013	40,000
July 1, 2003	15,000	January 1, 2014	35,000
January 1, 2004	15,000	July 1, 2014	35,000
July 1, 2004	20,000	January 1, 2015	40,000
January 1, 2005	20,000	July 1, 2015	45,000
July 1, 2005	20,000	January 1, 2016	45,000
January 1, 2006	25,000	July 1, 2016	45,000
July 1, 2006	25,000	January 1, 2017	45,000
January 1, 2007	20,000	July 1, 2017	45,000
July 1, 2007	20,000	January 1, 2018	50,000
January 1, 2008	25,000	July 1, 2018	50,000
July 1, 2008	20,000	January 1, 2019	860,000
January 1, 2009	30,000	July 1, 2019	885,000
July 1, 2009	25,000	January 1, 2020	905,000
January 1, 2010	30,000	July 1, 2020	930,000
		January 1, 2021	960,000

The principal amount of the Series 1998/1999A Bonds to be redeemed on each such redemption date pursuant to mandatory sinking fund redemption shall be reduced by the principal amount of any Series 1998/1999A Bonds of the same Series and having the same stated maturity, which (A) at least 45 days prior to mandatory sinking fund redemption date, (1) shall have been acquired by the Department and delivered to the Trustee for cancellation, or (2) shall have been acquired and canceled by the Trustee at the direction of the Department, or (3) shall have been redeemed other than pursuant to mandatory sinking fund redemption, and (B) shall have not been previously credited against a scheduled mandatory sinking fund redemption.

Partial Redemption

In the event that a Series 1998/1999A Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 1998/1999A Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof, such portion to be determined by lot or other random method by the Trustee. Upon surrender of any Series 1998/1999A Bond for redemption in part, the Trustee will authenticate and deliver an exchange Series 1998/1999A Bond or Series 1998/1999A Bonds in an aggregate principal amount equal to the unredeemed portion of the surrendered Series 1998/1999A Bond. See "THE SERIES 1998/1999A BONDS – DTC and Book-Entry."

Notice of Redemption

The Trustee shall give notice, in the name of the Department, of the redemption of Series 1998/1999A Bonds to the holders thereof, which notice shall specify the series, maturities, and interest rates of the Series 1998/1999A Bonds to be redeemed, the redemption date and the method and place or places where amounts

due upon such redemption will be payable and, if less than all of the Series 1998/1999A Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 1998/1999A Bonds so to be redeemed, and, in the case of Series 1998/1999A Bonds to be redeemed in part only, such notices shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 1998/1999A Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal amount thereof, in the case of Series 1998/1999A Bonds to be redeemed in part only, together with interest accrued to, but not including, the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, to the holders of any Series 1998/1999A Bonds or portions thereof which are to be redeemed, at their last addresses, if any, appearing upon the registry books of the Trustee. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not received by the holder.

For information concerning proposed amendments to the Trust Indenture to permit conditional notices of redemption, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Payment of Redeemed Bonds

Notice having been given as provided in the Trust Indenture, the Series 1998/1999A Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Series 1998/1999A Bond, the Department shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Series 1998/1999A Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 1998/1999A Bond so surrendered, registered Series 1998/1999A Bonds of like Series, maturity, interest rate and aggregate principal amount in any Authorized Denomination. If, on the redemption date, moneys for the redemption of all the Series 1998/1999A Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as specified in the Trust Indenture, then from and after the redemption date interest on the Series 1998/1999A Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be available on the redemption date, such Series 1998/1999A Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Purchase in Lieu of Redemption

The Trust Indenture permits the purchase of Bonds, including the Series 1998/1999A Bonds, in the open market in lieu of redemption of Bonds. Any such purchase may be at a price not exceeding the then applicable redemption price for such Bonds. For information concerning the proposed conditions upon which Bonds may be purchased at a price exceeding the then applicable redemption price, see "PROPOSED TRUST INDENTURE AMENDMENTS."

DTC and Book-Entry

The Series 1998/1999A Bonds will be available in book-entry form only. Purchasers of the Series 1998/1999A Bonds will not receive certificates representing their interests in the Series 1998/1999A Bonds purchased. The Depository Trust Company, New York, New York ("DTC") will act as Bond Depository for the Series 1998/1999A Bonds. The ownership of one fully registered Series 1998/1999A Bond for each

maturity within a Series will be registered in the name of Cede & Co., as nominee for DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Department believes to be reliable, but the Department takes no responsibility for the accuracy or completeness thereof.

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

Purchases of Series 1998/1999A Bonds under the DTC system may be made through brokers and dealers who are, or act through, DTC Participants. Upon such purchase, the DTC Participants will receive a credit balance on the records of DTC. The ownership interest of the actual purchaser of each Series 1998/1999A Bond or such purchaser's nominee (collectively, the "Beneficial Owner") will be recorded in the records of the DTC Participant or Indirect Participant. DTC Participants and Indirect Participants are expected to provide Beneficial Owners with a written confirmation of their purchases containing details of the Series 1998/1999A Bonds acquired. Transfers of ownership interests in the Series 1998/1999A Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Indirect Participants and Beneficial Owners.

BENEFICIAL OWNERS WILL NOT RECEIVE SERIES 1998/1999A BONDS IN DEFINITIVE FORM REPRESENTING THEIR OWNERSHIP INTEREST IN THE SERIES 1998/1999A BONDS AND WILL NOT BE, OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE TRUST INDENTURE. BENEFICIAL OWNERS WILL HAVE NO VOTING RIGHTS UNDER THE TRUST INDENTURE AND CEDE & CO., AS NOMINEE OF DTC, ALONE WILL HAVE VOTING RIGHTS WITH RESPECT TO THE SERIES 1998/1999A BONDS. FURTHER, AS DESCRIBED HEREIN, THE RIGHTS OF THE BENEFICIAL OWNERS OF THE SERIES 1998/1999A BONDS, INCLUDING WITHOUT LIMITATION, THE RIGHT OF BENEFICIAL OWNERS TO RECEIVE NOTICE AND TO CONSENT TO CERTAIN ACTIONS OR OMISSIONS UNDER THE TRUST INDENTURE, ARE IN CERTAIN CASES SUBJECT TO AND DEPENDENT UPON THE ACTIONS AND PROCEDURES OF AND AGREEMENTS AND ARRANGEMENTS AMONG DTC AND THE DTC PARTICIPANTS. BENEFICIAL OWNERS OF THE SERIES 1998/1999A BONDS ARE ADVISED TO CLARIFY AND CONFIRM SUCH ACTIONS, PROCEDURES, AGREEMENTS AND ARRANGEMENTS DIRECTLY WITH THE APPLICABLE DTC PARTICIPANTS.

FOR AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 1998/1999A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 1998/1999A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS, EXCEPT AS DESCRIBED HEREIN.

With certain exceptions described herein, the Department and the Trustee may treat and consider DTC or Cede & Co. as the absolute owner of each of the Series 1998/1999A Bonds for the purpose of payment of the principal of and premium, if any, and interest on such Series 1998/1999A Bonds, for the purpose of giving

notices with respect to redemption and other matters with respect to such Series 1998/1999A Bonds, for the purpose of registering transfers with respect to such Series 1998/1999A Bonds, for obtaining any consent as to other actions required or permitted to be taken of or by the owners of such Series 1998/1999A Bonds, for purposes of voting, and for all other purposes whatsoever. So long as any Series 1998/1999A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Series 1998/1999A Bonds and all notices with respect to such Series 1998/1999A Bonds will be made and given, respectively, to or upon the order of DTC.

The Trustee will make payments of the principal or redemption price of and interest on the Series 1998/1999A Bonds to DTC or its nominee, Cede & Co., as the registered owner of the Series 1998/1999A Bonds and such payments will be valid and effective to fully discharge the Department's and the Trustee's obligations to the extent of such payments. The current practice of DTC is to credit the accounts of the DTC Participants immediately upon receipt of moneys in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be in accordance with standing instructions and customary practices such as those which are now the case for municipal securities held by DTC Participants and Indirect Participants in bearer form or registered in "street name" for the accounts of customers and will be the responsibility of such DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee or the Department, subject to any statutory and regulatory requirements as may be in effect from time to time.

SO LONG AS A BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES 1998/1999A BONDS, THE TRUSTEE AND THE DEPARTMENT WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES WITH RESPECT TO SUCH SERIES 1998/1999A BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNER, OF ANY SUCH NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF SUCH SERIES 1998/1999A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Redemption of portions of the Series 1998/1999A Bonds by the Department will reduce the outstanding principal amount of such Series 1998/1999A Bonds held by DTC. In such event, DTC may implement, through its book-entry system, a redemption of such Series 1998/1999A Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and the DTC Participants and Indirect Participants may implement a redemption of any such Series 1998/1999A Bonds for the Beneficial Owners. Any such selection of Series 1998/1999A Bonds to be redeemed will not be governed by the Trust Indenture and will not be conducted by the Department or the Trustee. NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 1998/1999A BONDS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 1998/1999A BONDS FOR REDEMPTION.

The Department and the Trustee cannot give any assurances that DTC Participants or others will distribute payments of the principal or redemption price of and interest on the Series 1998/1999A Bonds paid to DTC or its nominee, as the registered owner, or distribute any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

For every transfer and exchange of Series 1998/1999A Bonds the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC (or a successor Bond Depository) may determine to discontinue providing its service with respect to the Series 1998/1999A Bonds at any time by giving notice to the Department and discharging its responsibilities with respect thereto under applicable law. In addition, in the event that the Department determines that the Bond Depository is incapable of discharging its duties, or that it is in the best interests of the Department or the owners of the Series 1998/1999A Bonds, the Department may determine to discontinue the use of book-entry transfers through DTC (or a successor Bond Depository). Under such circumstances, based on information received from DTC or any successor Bond Depository as to the Beneficial Owners of the Series 1998/1999A Bonds, definitive bonds will be delivered to the Beneficial Owners in definitive form as provided in the Trust Indenture.

Discontinuation of Book-Entry Only System

In the event that the Book-Entry Only System is discontinued by DTC or the Department, the following provisions will be applicable to the Series 1998/1999A Bonds: Series 1998/1999A Bonds may be exchanged for an equal aggregate principal amount of Series 1998/1999A Bonds in other Authorized Denominations of the same Series, maturity and interest rate upon surrender thereof at the applicable corporate trust office of the Trustee with a duly executed assignment in form satisfactory to the Trustee. The transfer of any Series 1998/1999A Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Series 1998/1999A Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer or registration of Series 1998/1999A Bonds, the Department and the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, as well as the fee, if any, charged by the Trustee for the transfer or exchange. The Department and the Trustee will not be required to transfer or exchange (a) any Series 1998/1999A Bond for a period of 15 days next preceding an Interest Payment Date or next preceding any selection of Series 1998/1999A Bonds to be redeemed or thereafter until after the mailing of any notice of redemption or (b) any Series 1998/1999A Bonds called for redemption. The Department and the Trustee may treat the person in whose name a Series 1998/1999A Bond is registered as the absolute owner thereof for all purposes. If any Series 1998/1999A Bond is not presented for payment when the principal or the redemption price therefor becomes due, or any check representing payment of interest on Series 1998/1999A Bonds is not presented for payment, and if moneys sufficient to pay such Series 1998/1999A Bond (or the portion thereof called for redemption) or such interest, as is applicable, have been deposited under the Trust Indenture, all liability of the Department to the owner thereof for the payment of such Series 1998/1999A Bonds (or portion thereof) or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Trustee to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Series 1998/1999A Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Trust Indenture or on or with respect to, such principal, redemption price and/or interest. Money not claimed within three years will be turned over to the Comptroller of Public Accounts of the State of Texas, in accordance with Title 6, Texas Property Code.

SECURITY FOR THE BONDS

Pledge of Trust Indenture

The Bonds, including the Series 1998/1999A Bonds, are equally and ratably secured by the Trust Indenture for the equal benefit, protection and security of the owners of the Bonds, each of which, regardless of time of issuance or maturity, is to be of equal rank without preference, priority or distinction, except as otherwise provided in the Trust Indenture.

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

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

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

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

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

For purposes of the Trust Indenture, "Revenues" means (i) all amounts paid or required to be paid with respect to principal and interest or otherwise from time to time on the Mortgage Loans and Mortgage Certificates, including Mortgage Loan Principal Prepayments, and including any such amounts held by persons collecting such amounts on behalf of the Department, after deducting any fees required to be paid for accounting, collection and other services required in connection with servicing of the Mortgage Loans (including any servicing fees and guaranty fees of GNMA and Fannie Mae); (ii) all interest received on or profits derived from investing moneys or securities held in the Funds and paid or to be paid into the Revenue Fund; and (iii) any other income, revenues or receipts of the Department which are defined by a Supplemental Indenture as Revenues and pledged to the Trustee as part of the Trust Estate pursuant to a Supplemental Indenture. The term "Revenues," however, does not include fees paid to Mortgage Lenders to service Mortgage Loans; payments made in order to obtain or maintain primary mortgage insurance or guaranties with respect to one or more Mortgage Loans; payments made in order to obtain or maintain fire or other hazard insurance with respect to Mortgage Loans; payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed on mortgage loans; commitment fees; or amounts required to be paid or recredited to a borrower or to the United States of America pursuant to applicable federal income tax laws and regulations.

The Department has covenanted in the Trust Indenture to enforce diligently, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans, including the prompt payment of all amounts due the Department thereunder, the enforcement of any insurance policy or guaranty relating to a Mortgage Loan, and the foreclosure of Mortgages or enforcement of security interests for defaulting Mortgage Loans. The Department has further covenanted not to release the obligation of any borrower under any Mortgage Loan, except upon the execution of a valid and enforceable assumption agreement as permitted by the Trust Indenture, and at all times, to the extent permitted by law, to defend, enforce, preserve and protect the rights and privileges of the Department and of the Bondholders under or with respect to each Mortgage Loan. The Department reserves the right to settle a default on any Mortgage Loan on such terms as the Department shall determine to be in the best interests of the Department and the Bondholders and to forebear from taking action with respect to enforcement of a Mortgage Loan, if it determines such forbearance to be in the best interest of the Department and the Bondholders. The Department has the right under the Trust Indenture to amend or modify any Mortgage Loan if it will not impair or adversely affect the rights or security of the Bondholders or adversely affect the tax-exempt status of interest on the tax-exempt Bonds issued under the Trust Indenture. For information concerning proposed revisions to the Trust Indenture to change the requirements for the sale of Mortgage Certificates and Mortgage Loans, see "PROPOSED TRUST INDENTURE AMENDMENTS."

The Series 1998/1999A Bonds are limited obligations of the Department and are payable solely from the Revenues and funds pledged for the payment thereof as more fully described herein. Neither the State nor any agency of the State, other than the Department, nor the United States of America or any agency, department or other instrumentality thereof, including GNMA, nor Fannie Mae, is obligated to pay the principal or redemption price of, or interest on, the Series 1998/1999A Bonds. Neither the faith and credit nor the taxing power of the State or the United States of America is pledged, given or loaned to such payment. The Department has no taxing power. GNMA and Fannie Mae guarantee only the payment of the principal of and interest on the GNMA Certificates and Fannie Mae Certificates, respectively, when due and do not guarantee the payment of the Series 1998/1999A Bonds or any other obligations issued by the Department.

Reserve Funds

The Trust Indenture establishes a Debt Service Reserve Fund and a Mortgage Reserve Fund. The Trust Indenture requires that the Debt Service Reserve Fund be maintained in an amount at least equal to four percent (4%) of the aggregate principal amount of the Bonds outstanding (the "Debt Service Reserve Fund Requirement") and that the Mortgage Reserve Fund be maintained in an amount at least equal to one and one-half percent (1.5%) of the principal amount of Bonds outstanding (the "Mortgage Reserve Fund Requirement"). The Trust Indenture provides that moneys in the Debt Service Reserve Fund and Mortgage Reserve Fund may be invested in Mortgage Certificates representing Mortgage Loans. Moneys in the Debt Service Reserve Fund and the Mortgage Reserve Fund will be made available in the event that there are insufficient funds to pay, when due, principal of and interest on the Series 1998/1999A Bonds or any other Outstanding Bonds. As of July 31, 1998, the Debt Service Reserve Fund Requirement for the Bonds was \$3,407,000, and \$3,778,104 was on deposit in the Debt Service Reserve Fund and the Mortgage Reserve Fund Requirement for the Bonds was \$1,277,625 and \$1,309,584 was on deposit in the Mortgage Reserve Fund. See "THE TRUST INDENTURE" herein. As of such date, substantially all of the moneys on deposit in such Funds were invested in Mortgage Certificates. For information regarding proposed changes to the Debt Service Reserve Fund Requirement and Mortgage Reserve Fund Requirement for the Series 1998/1999A Bonds and subsequent issues of Bonds, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Mortgage Insurance

The Trust Indenture requires that all Mortgage Loans must be secured by Mortgages, subject to certain permitted encumbrances, on one-to-four family residences located in the State. Mortgage Loans must (i) be federally insured or guaranteed, (ii) have a principal balance not exceeding 80% of the lesser of the appraised value or the purchase price of the property securing the Mortgage Loan (the "Value"), or (iii) be insured by a private mortgage insurer approved by the Department in an amount by which the loan exceeds 80% of the value. See "APPENDIX B - SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS."

Supplemental Mortgage Security

The Trust Indenture requires that each Mortgage Loan be further secured by Supplemental Mortgage Security, if any, as directed in the Supplemental Indenture authorizing the Series of Bonds used to purchase such Mortgage Loan. The Supplemental Indentures authorizing the Series 1998/1999A Bonds require the purchase of Mortgage Certificates. The Supplemental Indentures authorizing each Series of the Prior Bonds, except the Series 1987A Bonds, required the purchase of Mortgage Certificates. The Supplemental Indenture authorizing the Series 1987A Bonds required that, for the Series 1987A Bonds, the Department use its best reasonable efforts to maintain a mortgage pool insurance policy in an amount at least equal to 10% of the initial aggregate principal amount of Mortgage Loans acquired with the proceeds of the Series 1987A Bonds. Due to the fact that the cost of mortgage pool insurance was, at the time, prohibitively expensive, the Department established a mortgage pool self-insurance program in connection with its Series 1987A Bonds. As of July 31, 1998, the amount in the Self-Insurance Fund was \$450,992. Upon redemption of the Series 1987A Bonds and the Series 1987D Bonds, the Self-Insurance Fund may be released from the lien of the Trust Indenture at the discretion of the Department. Information concerning Supplemental Mortgage Security, including Mortgage Certificates and the Department's mortgage pool self-insurance program, and the extent of the coverage provided thereby is contained in "APPENDIX B -- SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS", "APPENDIX C-1 - GNMA AND THE GNMA CERTIFICATES" and "APPENDIX C-2 - FANNIE MAE AND THE FANNIE MAE CERTIFICATES."

For proposed revision of the definition of Supplemental Mortgage Security to include other forms of credit enhancement, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Cashflow Statement and Asset Test

The Department is required to deliver periodically a "Cashflow Statement" prepared or verified by a nationally recognized firm experienced in preparing mortgage revenue bond cashflows, comparing estimates of Revenues with the debt service requirements and Department Expenses with respect to Outstanding Bonds, which Cashflow Statement must demonstrate the sufficiency of such Revenues to pay scheduled debt service and Department Expenses and to maintain the funding of the Debt Service Reserve Fund and the Mortgage Reserve Fund at their respective requirements. Under the terms of the Master Indenture, such Cashflow Statements must incorporate certain assumptions concerning Mortgage Loan Principal Prepayments, reinvestment rates, expenses and certain other assumptions as provided in the Master Indenture. The Cashflow Statement is required to be prepared as a condition to the issuance of the Series 1998/1998A Bonds, the issuance of any additional Bonds, and recalculated and refiled not later than two and one-half years after the date of filing of the most recent Cashflow Statement.

The Department has covenanted in the Trust Indenture that it will make, acquire, refinance or sell Mortgage Loans or Mortgage Certificates or purchase or redeem Bonds, including the Series 1998/1999A Bonds, or take certain other actions permitted under the Trust Indenture, only if such actions are in accordance with its most recent Cashflow Statement.

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

For information concerning proposed changes to the Cashflow Statement requirements, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Prior Bonds

In addition to the Series 1998/1999A Bonds to be issued, seven series of Prior Bonds have been issued pursuant to the Master Indenture and seven separate Series Supplements. As of July 31, 1998, five Series of such Prior Bonds were Outstanding in the following principal amounts:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding</u>
Series 1987A ⁽¹⁾	\$30,000,000	\$ 4,070,000
Series 1987D ⁽¹⁾	47,000,000	23,580,000
Series 1988A	40,920,000	34,415,000
Series 1989A/B	<u>89,000,000</u>	<u>24,475,000</u>
TOTALS	\$206,920,000	\$86,540,000

⁽¹⁾ To be refunded with the proceeds of the Series 1999A Bonds

Mortgage Loans and Mortgage Certificates

The following table summarizes certain information regarding the Mortgage Loans (including Mortgage Certificates representing Mortgage Loans) acquired with the proceeds of the Prior Bonds. All Mortgage Loans acquired to date under the Trust Indenture are fixed rate loans for terms not exceeding 30 years. For a more detailed examination of the Mortgage Loans and Mortgage Certificates acquired with proceeds of the Prior Bonds, please refer to "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES." Unless otherwise specified, all information is as of July 31, 1998.

<u>Series⁽¹⁾</u>	<u>Mortgage Rate</u>	<u>Mortgage Loans/Certificates</u>	
		<u>Originated</u>	<u>Outstanding⁽²⁾</u>
Series 1987A	9.55	\$ 25,038,498	\$ 7,626,549
Series 1987D	8.00/9.25	43,481,976	20,452,510
Series 1988A	6.50/6.69/7.69	39,432,829	20,343,479
	8.69/9.25		
Series 1989A/B	7.69/8.69	<u>77,819,827</u>	<u>37,603,936</u>
Total		▲ <u>\$185,773,130</u>	\$86,026,474

(1) Except for Series 1987A Bonds, the Prior Bonds were used to purchase Mortgage Certificates. The Mortgage Loans purchased with the proceeds of the Series 1987A Bonds are insured by FHA.

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

Since the inception of the Department's Residential Mortgage Revenue Bonds Program, the Department has foreclosed on approximately 45 Mortgage Loans having an outstanding principal balance, at the time of foreclosure, of \$2,310,548. The Department continues to hold title to property securing 2 of such Mortgage Loans. In an effort to maximize its return on real estate owned by the Department as a result of foreclosures, the Department has entered into a contract with outside contractors to manage, maintain and arrange for sales, in conjunction with real estate brokers, of such real estate owned. See "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES" for information concerning the Department's current delinquency and foreclosure rates with respect to the Mortgage Loans.

Investment of Funds

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

The following table summarizes certain information as of July 31, 1998 (except that information relating to the Series 1998/1999A Bonds is as of the date of delivery thereof), regarding yields (calculated on the basis of stated maturity) on existing investments (valued at par) within the Debt Service Reserve Fund, the Mortgage Reserve Fund and the Float Fund (as defined in Footnote 3 below) in connection with outstanding Prior Bonds and the Series 1998/1999A Bonds:

<u>Fund or Account</u>	<u>Approximate Amount Invested (par value)</u>	<u>Average Investment Rate</u>	<u>Investment Maturity Date</u>	<u>Investment Security/ Investment Agreement Provider⁽⁶⁾</u>
Debt Service Reserve Fund				
Series 1987A ⁽¹⁾	\$ 642,108	8.50%	Various	Various
Series 1987D ⁽¹⁾	818,100	7.50	9/20/18	GNMA Mortgage Certificates
Series 1988A	813,739	8.19	3/20/15	GNMA Mortgage Certificates
Series 1989A/B	1,504,157	8.19	2/20/15	GNMA Mortgage Certificates
Series 1998/1999A ⁽¹⁾	4,654,200	(2)	(2)	(2)
Mortgage Reserve Fund				
Series 1987A ⁽¹⁾	\$ 133,585	8.00%	7/01/19 ⁽⁵⁾	Citicorp GIC
Series 1987D ⁽¹⁾	306,788	7.50	4/20/16	GNMA Mortgage Certificates
Series 1988A	305,152	6.19	4/20/16	GNMA Mortgage Certificates
Series 1989A/B	564,059	8.19	11/20/15	GNMA Mortgage Certificates
Series 1998/1999A ⁽¹⁾	1,745,325	(2)	(2)	(2)
Float Fund⁽³⁾				
Series 1987A	N/A	8.05%	1/01/21 ⁽⁵⁾	Citicorp GIC
Series 1987D ⁽⁴⁾	----	----	----	----
Series 1988A	N/A	7.875	7/01/18	Citicorp GIC
Series 1989A/B	N/A	7.875	7/01/18	Citicorp GIC
Series 1998/1999A	N/A	5.040	1/01/31	CDC Funding Corp GIC
Mortgage Loan Fund				
Series 1998/1999A	\$111,963,911	5.121%	2/01/01	Trinity Funding Company L.L.P. GIC

(1) Upon the effective date of the Eleventh Supplemental Indenture amending the Trust Indenture, moneys and Mortgage Certificates in the applicable Series Accounts of the Debt Service Reserve Fund and Mortgage Reserve Fund will be transferred to the Series 1998/1999A Mortgage Loan Account.

(2) These funds initially will be deposited in the same GIC as the funds in the Series 1998/1999A Mortgage Loan Account. Thereafter, it is expected that such funds will be invested in 1998 Mortgage Certificates.

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

(4) Shares a common Revenue Account with Series 1987A.

(5) Expected to be terminated on July 1, 1999 upon the redemption of the Refunded Bonds.

(6) "GIC" means guaranteed investment contract.

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

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

Additional Bonds

Various series of Bonds, including refunding Bonds, may be issued as provided in the Trust Indenture on a parity with the Bonds of all other series, secured by a pledge of and lien on the Trust Estate. As a

condition to the issuance of additional Bonds, including refunding Bonds, the Department must deliver various items to the Trustee including an opinion of Bond Counsel to the effect that, among other things, the series of Bonds is validly issued in accordance with the Trust Indenture and the Act. The Department must also deliver a Cashflow Statement which gives effect to the issuance of such additional Bonds as described above under "Cashflow Statement." No additional parity Bonds may be issued unless, upon the issuance of such Bonds, the amounts credited to the Debt Service Reserve Fund and the Mortgage Reserve Fund will be sufficient to maintain the respective reserve requirements. For information regarding proposed changes to the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement for the Series 1998/1999A Bonds and subsequent issues of Bonds, see "PROPOSED TRUST INDENTURE AMENDMENTS." The Department has reserved the right to adopt one or more other bond indentures and to issue other obligations payable from sources other than the Trust Estate or, payable from the Trust Estate, including the Revenues, if the pledge of and lien on the Trust Estate and the Revenues is junior to or subordinate to the pledge of and lien on the Trust Estate and the Revenues to the Bonds.

Sale of Mortgage Certificates and Mortgage Loans

The Department is not permitted to sell, assign, transfer or otherwise dispose of any Mortgage Certificate or Mortgage Loan unless the Department determines that such action is in the best interests of the Department and the Bondholders and will not adversely affect the ability of the Department to pay when due the principal or redemption price of, and interest on, the Bonds. For information concerning proposed revisions to the Trust Indenture to change the requirements for the sale of Mortgage Certificates and Mortgage Loans, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Special Mortgage Loans

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

ASSUMPTIONS AND RISKS

Assumptions

On the basis of the Cashflow Statement prepared in connection with the issuance of the Series 1998/1999A Bonds, the Department expects that the scheduled payments, together with Mortgage Loan Principal Prepayments received, if any, of the principal of and interest on the Mortgage Loans and the Mortgage Certificates and amounts held under the Trust Indenture and the earnings thereon, will be sufficient to pay the principal or redemption price of and interest on the Series 1998/1999A Bonds and all other Prior Bonds Outstanding when due. In arriving at the foregoing conclusions, the Department has included all Bonds but has not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. Since obligations issued under the Trust Indenture, unless subordinated, will rank equally and ratably

with the Series 1998/1999A Bonds and the Prior Bonds with respect to the security afforded by the Trust Indenture, the availability of money for repayment thereof could be significantly affected by the issuance, application and investment of proceeds of additional Bonds.

The maturities of and mandatory sinking fund installments of the Series 1998/1999A Bonds have been established on the basis of the consolidated scheduled payments of the Mortgage Loans (including Mortgage Certificates) under the Trust Indenture. The interest rates on the Mortgage Loans acquired with moneys made available upon the issuance of the Series 1998/1999A Bonds will be established so that, together with payments of principal of and interest on the Mortgage Loans and the Mortgage Certificates outstanding under the Trust Indenture and moneys on deposit in the various funds and accounts under the Trust Indenture (as well as income derived from investments thereof), sufficient Revenues will be expected to be available to pay on a timely basis the principal of and interest on all Bonds outstanding under the Trust Indenture, including the Series 1998/1999A Bonds, and certain other amounts required to be paid under the Trust Indenture. Such expectation is based on, among others, the following assumptions:

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

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

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

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

(e) all of the lendable proceeds of the Series 1998/1999A Bonds will be used to purchase Mortgage Certificates representing Mortgage Loans with terms of thirty (30) years that will provide for payment of principal and interest in approximately equal monthly installments;

(f) each of the 1987 Transferred Mortgage Assets will bear interest at the rate of 9.55% for the 1987A Mortgage Loans and pass-through rates of either 7.50% or 8.75% for the 1987D Mortgage Certificates; and

(g) each of the 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates will bear a pass-through rate of 5.35%.

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

Termination of Mortgage Loans and Mortgage Certificates

The maturities and sinking fund installments of the Series 1998/1999A Bonds were determined on the basis of the assumption that there will be no early terminations of the Mortgage Loans or the Mortgage Certificates relating to the Series 1998/1999A Bonds. In fact, the Department expects Mortgage Loans and Mortgage Certificates relating to the Series 1998/1999A Bonds will be terminated prior to final maturity as a result of Mortgage Loan Principal Prepayments. All Mortgage Loan Principal Prepayments relating to the Series 1998/1999A Bonds will be deposited in the (i) Revenue Fund and transferred to the Special Redemption Account for use to redeem Series 1998/1999A Bonds or other Bonds in accordance with the Trust Indenture or (ii) Mortgage Loan Fund and used to purchase Mortgage Certificates. **Accordingly, the Department anticipates that substantially all of the Series 1998/1999A Bonds will be redeemed prior to their scheduled maturities.**

Federal Guarantee Limits

The dollar amount of commitments to guarantee securities that GNMA can approve and the dollar amount that FHA and VA can insure or guarantee in any federal fiscal year is limited by statute and administrative procedures. If an appropriation act is not passed in any federal fiscal year or if GNMA, FHA or VA reach the limits of their respective authority, or if GNMA, in its sole discretion, or the federal government alters or amends the GNMA Mortgage-Backed Securities Program in such a way as to prevent the Mortgage Lenders from originating Mortgage Loans during the origination period and the Servicer from issuing GNMA Certificates prior to the acquisition date therefor, the Mortgage Lenders may be unable to originate Mortgage Loans and the Servicer may be unable to issue GNMA Certificates in the anticipated aggregate principal amount. **The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee in amounts contemplated by this financing would result in the early redemption of the Series 1998/1999A Bonds prior to their maturity. See "THE SERIES 1998/1999A BONDS - Redemption Provisions."**

Non-Origination of Mortgage Loans

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

In addition, there exists a risk of non-origination resulting from the reservation for a period of one year (or such longer period as determined by the Department) of 30% of the lendable funds made available through the issuance of the Series 1998/1999A Bonds for persons or families of very low income (60% of applicable median family income), the reservation for one year of 25% of such proceeds for Mortgage Loans in rural and underserved areas, and the reservation of 20% of the proceeds of the Series 1998A Bonds for Mortgage Loans in certain federally designated targeted areas. See "THE PROGRAM AND THE MORTGAGE LOANS - Very Low Income Reservation, - Targeted Area Reservation, and - Rural and Underserved Area Reservation" As a result, the pool of potential mortgagors will be limited for such period and economic conditions or conventional mortgage rates may have adversely changed by the end of the set aside period.

The Department is currently purchasing mortgage certificates with the proceeds of its Single Family Mortgage Revenue Bonds pursuant to five separate programs. Mortgage certificates purchased with the proceeds of its Single Family Mortgage Revenue Bonds are not security for the Bonds. The following chart gives information with respect to the origination status of all active programs of the Department as of September 30, 1998:

<u>Active Program</u>	<u>Program Start Date</u>	<u>Mortgage Rate</u>	<u>Mortgage Funds Available</u>	<u>Amounts Purchased</u>	<u>Reservation Amounts⁽²⁾</u>	<u>Remaining Funds</u>
Program 48	12/20/95	6.65%	\$ 98,371,551	\$ 98,065,324	\$ 243,984	\$ 62,243
Program 49	10/01/96	6.95 ⁽¹⁾	21,361,642	12,398,754	1,145,750	7,817,138
Program 51	11/07/96	6.75	92,689,901	88,294,686	3,516,048	878,967
Program 52	10/01/97	6.75	80,287,205	45,495,594	10,439,453	24,352,158
Program 53	01/19/98	6.75	<u>66,508,175</u>	<u>20,220,268</u>	<u>17,308,794</u>	<u>28,979,113</u>
Total			\$359,218,474	\$264,474,626	\$32,654,029	\$62,089,619

(1) As of September 11, 1998, the Department approved the reduction of the mortgage rate to 5.95% for the remaining funds for Program 49.

(2) There are no assurances that any of the reservations by mortgage lenders for mortgage loans pending but not closed will ultimately result in the purchase of mortgage certificates.

The failure to originate Mortgage Loans, or the inability to deliver Mortgage Certificates to the Trustee, in the amounts contemplated by this financing will result in redemption of the Series 1998/1999A Bonds prior to their maturity. See "THE SERIES 1998/1999A BONDS - Redemption Provisions.

Availability of Remedies

The remedies available to the owners of the Series 1998/1999A Bonds upon an Event of Default under the Trust Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy laws, the Trust Indenture and the various Program documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 1998/1999A Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity which permit the exercise of judicial discretion.

THE DEPARTMENT

General

The Department, a public and official governmental agency of the State and a body corporate and politic, was created pursuant to the Act, effective September 1, 1991. The Department is the successor agency to the Agency and the TDCA, both of which were abolished by the Act and their functions and obligations transferred to the Department. One of the purposes of the Department is to provide assistance to individuals and families of low and very low income and families of moderate income and persons with special

needs to obtain decent, safe and sanitary housing. Pursuant to the Act, the Department may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department.

The Department is subject to the Texas Sunset Act (Chapter 325, Texas Government Code, as amended, hereinafter referred to as the "Sunset Act,") and its continued existence will be subject to review in 1999. Unless continued in existence pursuant to the procedures established by the Sunset Act, the Department will be dissolved effective September 1, 2001. The Sunset Act, however, recognizes the continuing obligation of the State to provide for the payment of bonded indebtedness incurred by a State agency abolished under the provisions thereof and provides that the Governor of the State shall designate an appropriate State agency to continue to carry out all covenants with respect to any bonds outstanding, including the payment of any bonds from the sources provided in the proceedings authorizing such bonds.

In the Act, the State also pledges and agrees with the holders of any bonds issued under the Act (such as the Series 1998/1999A Bonds) that the State will not limit or alter the rights vested in the Department to fulfill the terms of any agreements made with the holders thereof that would in any way impair the rights and remedies of such holders until such bonds, together with the interest thereon, interest on any unpaid installments of interest and all costs and expenses incurred in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Organization and Membership

Governing Board

The Department is governed by a governing board (the "Board") consisting of nine members who are appointed by the Governor of the State with the advice and consent of the State Senate. Each member holds office for a term of six years, with the terms of three members expiring on January 31 of each odd-numbered year. Each member holds office until a successor is appointed and has qualified. Each member is eligible for reappointment. Members serve without compensation, but are entitled to reimbursement for actual expenses incurred in performing their duties of office. The Act requires the Governor to make appointments so that the places on the Board are occupied by persons who broadly reflect the economic, cultural, and social diversity of the State, including ethnic minorities and women, and specifically, representing the following areas: lending institutions, local government, housing construction, community based nonprofit housing organizations, realtors or housing developers, persons and families of low or very low income, and three public members.

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

In a criminal information, filed on October 19, 1998, the United States Attorney for the Southern District of Texas charged an individual with certain federal offenses relating to the Department's low-income housing tax credit program. The information further alleges that a current member of the Department's Board, who is unnamed in the charge, acted as a co-conspirator. The information contains no allegations of improprieties on the part of the Department. The Department's tax credit program is completely separate from its single-family mortgage revenue bond programs and in no way affects the security for the Bonds.

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

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

HARVEY CLEMONS, JR., Vice Chairman and Board Member. Pastor, Pleasant Hill Missionary Baptist Church, Houston, Texas. His term expires January 31, 1999.

PAUL RODRIGUEZ, Board Member. Executive Vice President, Lone Star National Bank, McAllen, Texas. His term expires January 31, 1999.

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

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

MICHAEL E. JONES, Board Member. Attorney, Potter, Minton, Roberts, Davis & Jones, P.C., Tyler, Texas. His term expires January 31, 1999.

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

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

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

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

Administrative Personnel

The Act provides that the Department is to be administered by an Executive Director to be appointed by the Governor upon the advice and consent of the State Senate. The Executive Director serves at the pleasure of the Governor and at a salary as provided by the Governor within authorized appropriations. The Executive Director is responsible for administering the Department and its personnel. The Executive Director may employ other employees necessary for the discharge of the duties of the Department, subject to the annual budget and the provisions of any resolution authorizing the issuance of the Department's bonds. The office of Executive Director has been vacant since August 31, 1998. Pending appointment by the Governor of a new Executive Director, the Governor has appointed Daisy Stiner to act as Acting Executive Director. Currently, the Department has 336 employees with 23 being employed in the Department's Housing Finance Division, the division with primary responsibility for the administration of, among other things, bond-financed single family and multi-family programs. The following is a biographical summary of certain of the Department's senior staff members who have responsibility with respect to single-family and multi-family housing matters.

DAISY STINER, Acting Executive Director. Ms. Stiner joined the Department in January, 1996, as Director of Housing Programs. On December 1, 1997, Ms. Stiner was promoted to the position of Deputy Executive Director and in September, 1998 was appointed by the Governor as Acting Executive Director.

In addition to her responsibilities as Acting Executive Director, Ms. Stiner also oversees the Department's program divisions, including Housing Programs, Housing Finance, Community Development Block Grants, Community Affairs, Manufactured Housing and the Office of Colonia Initiatives. Ms. Stiner has over 20 year experience in all facets of affordable housing, community and economic development. Ms. Stiner received her Bachelors of Art degree from Prairie View A&M University and her Masters of Art degree from Texas Southern University in Houston.

LORIE MASON, Director of Bond Finance. Ms. Mason joined the Department on November 7, 1994, as Bond Finance Officer in the Housing Finance Division. In September, 1995, Ms. Mason was promoted to Deputy Director for Housing Finance and on July 26, 1996, Ms. Mason was promoted to Director of Bond Finance. In this position she is responsible for development and administration of the Department's Single Family and Multi-Family Mortgage Revenue Bond programs and the Department's Commercial Paper Program. Ms. Mason also oversees ongoing compliance monitoring and disclosure requirements related to the Department's bond programs. Ms. Mason is a Certified Public Accountant with over twelve years experience in accounting, taxation, and housing finance. Ms. Mason has both a Bachelor of Science degree and a Master of Taxation from the University of Alabama.

On November 13, 1998, Ms. Mason gave notice to the Department of her intention to resign from her position effective mid-December, 1998.

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

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

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

THE PROGRAM AND THE MORTGAGE LOANS

The Program and Program 54

The Department has established a Residential Mortgage Revenue Bond Program ("Program") pursuant to the Act for the purpose of assisting in financing the costs of acquisition of residences within the State of Texas by Eligible Borrowers (as described below). The component of the program relating to the Series 1998/1999A Bonds will be designated as the Department's Bond Program No. 54 ("Program 54"). In connection with the issuance of the Series 1998/1999A Bonds and the outstanding Prior Bonds, the Department purchased or shall purchase certain qualified Mortgage Loans (or Mortgage Certificates backed by Mortgage Loans) originated by commercial banks, savings and loan associations, mortgage companies,

and other qualified institutions (the "Mortgage Lenders"). As a result of the issuance of the Series 1998/1999A Bonds, the Trustee on behalf of the Department has agreed to purchase 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates.

Mortgage Loans evidenced by the 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates will bear interest at the rates established upon the issuance of the Series 1998/1999A Bonds, subject to subsequent adjustment by the Department pursuant to the provisions of the Trust Indenture. The purchase price for the 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates will be 100 % of par (plus accrued interest). The Department will purchase the 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates during a Certificate Purchase Period which will expire on November 30, 2000, but which may be extended to a date no later than April 1, 2002, upon compliance with the terms of the Series 1998/1999A Series Supplements.

General

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

Mortgage Lender Reservations

Approximately seventy-five percent (75%) of the funds made available through Program 54 will be committed to participating Mortgage Lenders through an allocation process for which the participating Mortgage Lenders will pay a 1% Program Participation Fee. Each Mortgage Lender's allocation will include a pro rata portion of each class of funds (targeted area funds, very low income funds, and low and moderate income funds). Each participating Mortgage Lender's allocated commitment will have a 12 month expiration. Approximately twenty-five percent (25%) of the funds made available through Program 54 will be reserved for one year for access by participating Mortgage Lenders on a first-come, first-served basis exclusively for originations in certain rural and underserved areas. See "Rural and Underserved Area Reservation." No Program Participation Fee will be assessed for the rural and underserved area reservation.

Very Low Income Reservation

For the first one-year period of Program 54 (or such longer period as determined by the Department) after issuance of the Series 1998/1999A Bonds, the Department is requiring that 30% of the funds made available for financing Mortgage Loans as a result of such issuance will be set aside for Mortgage Loans for individuals and families of very low income (60% of applicable median family income). See "APPENDIX

G- APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS." After such period, Mortgage Lenders may make Mortgage Loans to any eligible borrowers and the Trustee may use any remaining reserved funds to purchase 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates representing Mortgage Loans made to any eligible borrowers.

Targeted Area Reservation

For the first twelve months of Program 54 (commencing on the date proceeds are first made available to finance Mortgage Loans, which is anticipated to be December 3, 1998), approximately \$20,411,000 of proceeds of the Series 1998A Bonds will be required to be reserved for Mortgage Loans made in certain targeted areas. See "TAX MATTERS -- Federal Income Tax Requirements -- Targeted Area Requirement." Such reservation will be accomplished by requiring that such amount of proceeds be used only to pay for that portion of the purchase price of a Mortgage Certificate that is applicable to the principal amount of a Mortgage Loan made to finance a residence which is located in a targeted area. After the expiration of such one-year reservation, the Trustee may use any remaining reserved funds to purchase 1998 Mortgage Certificates representing any Mortgage Loans made to eligible borrowers. Historically, in other single-family mortgage revenue bond programs of the Department which have required targeted area reservations, an average of less than 2% of the amounts available to make mortgage loans have been used to originate mortgage loans in such targeted areas. However, in its most recent programs, approximately 7% to 9% of amounts available have been used to originate mortgage loans in such targeted areas.

Rural and Underserved Area Reservation

For the first year of Program 54 (or such longer period as determined by the Department) after issuance of the Series 1998/1999A Bonds, twenty-five percent (25%) of the funds available under Program 54 will be reserved for Mortgage Loans made in certain rural and underserved areas designated by the Department. Such areas generally consist of cities and counties with populations of less than 20,000. Such funds will be made available to participating Mortgage Lenders on a first-come, first-served basis without the requirement of payment of any Program Participation Fee. After such period, Mortgage Lenders may make Mortgage Loans to any eligible borrowers and the Trustee may use any remaining reserved funds to purchase 1998 Mortgage Certificates and 1987 Recycled Mortgage Certificates representing Mortgage Loans made to any eligible borrowers.

Community Home Buyer's Program

Pursuant to Fannie Mae requirements, in connection with Program 54, Mortgage Lenders will make available to all first time homebuyers participating in Program 54 whose Mortgage Loans are backed by Fannie Mae Certificates a comprehensive educational program known as the Community Home Buyer's Program (the "Community Home Buyer's Program"). The Community Home Buyer's Program provides more flexible loan underwriting than otherwise may be available. To qualify for the Community Home Buyer's Program, the mortgagor must first participate in home loan counseling seminars which will be made available on an on-going basis throughout Program 54. The seminars cover: (1) how to purchase a home; (2) budgeting; (3) evaluating the mortgagor's current ability to repay a mortgage; (4) homeownership planning; (5) loan closing; (6) home maintenance; and (7) avoiding a default.

Eligible Borrowers

Each Mortgage Loan is required to be made to a person whose family income does not exceed the income limits established by the Department from time to time. In addition, to be eligible for a Mortgage Loan an applicant must be a person: (i) who intends to occupy the residence to be financed with such Mortgage Loan as his or her principal residence within a reasonable period; (ii) who, except in the case of certain targeted area loans and disaster area loans, certain exception loans hereinafter described, and certain homes falling into the Contract for Deed Exception, has not had a present ownership interest in a principal residence at any time during the three-year period preceding the date of execution of the Mortgage; and (iii) who has not had an existing mortgage on the residence (other than a mortgage falling into the Contract for Deed Exception) to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than certain permitted temporary financing mortgages. The Department, subject to the requirements of applicable provisions of federal income tax law and applicable regulations, may approve a limited number of exception loans that do not satisfy the requirement described in clause (ii) in the immediately preceding sentence. In addition to the above requirement, thirty percent (30%) of the funds made available through Program 54 will be restricted for approximately one year from the beginning of Program 54 (or such longer period as determined by the Department) for individuals and families of very low income (60% of applicable median family income). See "APPENDIX G - APPLICABLE MEDIAN FAMILY INCOMES AND MAXIMUM ACQUISITION COST LIMITATIONS."

Eligible Property

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

Eligible Mortgage Loans

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

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

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

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

(d) Each Mortgage Loan: (i) shall be insured by the FHA under the National Housing Act of 1934, as amended (other than Section 245 thereof), or guaranteed by the VA under the

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

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

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

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

For information concerning proposed amendments to the Trust Indenture relating to Special Mortgage Loans, see "PROPOSED TRUST INDENTURE AMENDMENTS."

The Department is not permitted under the Trust Indenture to sell, assign, transfer or otherwise dispose of any Mortgage Loan or any of the rights of the Department with respect to any Mortgage Loan unless the Department determines that such action is in the best interests of the Department and the Bondholders and will not adversely affect the ability of the Department to pay when due the principal or Redemption Price of and interest on the Bonds, in which case such Mortgage Loan may be so disposed of by the Department free and clear of the pledge of the Trust Indenture. See "SECURITY FOR THE BONDS -- Sale of Mortgage Certificates and Mortgage Loans." For information concerning proposed amendments to the Trust Indenture to change the requirements for sales of Mortgage Loans, see "PROPOSED TRUST INDENTURE AMENDMENTS."

The Department shall not consent or agree to or permit any amendment or modification of any Mortgage Loan which will in any manner materially impair or materially adversely affect the rights or security of the Bondholders under the Trust Indenture in such Mortgage Loan except for amendments and modifications made in connection with settling any default on any Mortgage Loan which settlement the Department determines to be in the best interests of the Department and the Bondholders or in connection with a refinancing of a Mortgage Loan. For information concerning proposed amendments to the Department's authority to amend or modify Mortgage Loans, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Compliance with Tax Law and Program Guidelines

Each Mortgage Lender was required or will be required to follow certain procedures in the origination of Mortgage Loans to insure compliance with the mortgage eligibility requirements of applicable federal income tax laws and other requirements applicable to the Mortgage Loans. These procedures will include, but may not be limited to, the following: (i) obtaining affidavits of the borrower and seller, if any, providing and certifying certain information regarding borrower income, home acquisition cost, and other loan information; (ii) reviewing the contents of the affidavits and certificates with the persons executing them prior

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

Compliance Agent

The Department will act as a Compliance Agent for Program 54 to review and examine, or cause to be reviewed and examined, certain documents submitted by each Mortgage Lender in connection with the Mortgage Loans and to make determinations with respect to compliance of such documents with requirements of the Department and the Program. Such requirements primarily relate to, among other things, compliance with FHA, RD or VA requirements, as applicable, compliance with the GNMA Guide, the Fannie Mae Guide, and the applicable Program Supplement, compliance of the Mortgage Loans with the required terms thereof, and compliance of certain affidavits, certificates, and other documents with the requirements of federal tax law which relate to continuing tax exemption of the Series 1998/1999A Bonds.

Servicing

General

The servicers for Mortgage Loans included in Mortgage Certificates are referred to herein individually as "Master Servicer" and collectively, as "Master Servicers." The Department has selected Texas State Affordable Housing Corporation ("TSAHC") to act as the Master Servicer for all Mortgage Loans under Program 54. It is expected that TSAHC will contract with a qualified sub-servicer to carry out the servicing responsibilities described herein. The Department has contracted with Mitchell Mortgage Corporation ("MMC") to act as the Master Servicer for all Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1987A Mortgage Loans. The Mortgage Lenders servicing the 1987A Mortgage Loans and other Mortgage Lenders servicing Mortgage Loans not included in Mortgage Certificates are referred to herein individually as "Servicer" and collectively, as "Servicers". The Mortgage Lenders servicing the 1987A Mortgage Loans are listed in "APPENDIX F-1 - ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

In connection with 1987A Mortgage Loans, the Servicers service the 1987A Mortgage Loans and the Department acts as an administrator, monitoring the Servicers' activities and remittances to the Trustee. The Department maintains a schedule of anticipated receipts which each Servicer is expected to remit to the Trustee. The Servicers report to the Department any delinquent payments and prepayments. The Department's computerized management information system reconciles Trustee receipts with Servicer reported remittances, reconciles loan amortization, monitors delinquencies and foreclosure actions, and monitors

Servicer performance. Since the proceeds of the Prior Bonds, other than the Series 1987A Bonds, were used, and the proceeds of the Series 1998/1999A Bonds will be used, to purchase Mortgage Certificates, the Department does not act as an administrator with respect to Mortgage Loans backed by Mortgage Certificates but monitors the actions of the Master Servicers.

Servicing of the Mortgage Loans Evidenced by Mortgage Certificates

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

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

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

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

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

Each Servicer is required to be a FHA-approved mortgagee and/or a Fannie Mae-, RD- or VA-approved seller and servicer of Mortgage Loans. Each Servicer must service Mortgage Loans in accordance

with the servicing standards set forth by the Department as such standards are specifically modified by the Agreement, the Department or the lender's manual published by the Department. Each Servicer is required to service the Mortgage Loans sold by it to the Department unless, prior to the execution of the Agreement, the Department directs the assignment of servicing to another Servicer. As compensation for such services, a Servicer is entitled to receive a monthly servicing fee of between .25 and .375 percent of the unpaid principal balance of each Mortgage Loan serviced. For Mortgage Loans delinquent 15 days or more, late charges may be collected and retained by the Servicers as permitted by law. A Servicer is required to pay all expenses incurred by it in connection with its servicing activities (including maintenance of its errors and omissions insurance policy and fidelity bond). A Servicer may, with the prior written consent of the Department, assign its servicing rights and obligations to another Servicer in good standing under the Program.

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

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

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

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

The Master Servicers

The Department has selected the TSAHC to act as Master Servicer under Program 54. TSAHC was duly created and organized by action of the Governing Board of the Department on May 6, 1994, as a Texas non-profit corporation, for the purpose of promoting the public health, safety, and welfare through the provision of affordable, adequate, safe and sanitary housing for individuals and families of low and very low income and families of moderate income. Such purpose is to be accomplished through a variety of services and activities including mortgage banking functions such as servicing of loans, the making of mortgage loans and other related activities. As of July 31, 1998, TSAHC was acting as servicer for approximately \$86,627,755 in loans financed through the Department's mortgage revenue bond programs. The governing board of TSAHC is appointed by the Governor and consists of six members, including the Chair of the Department and the Chair of the Department's Programs Committee.

It is expected that TSAHC will enter into a Sub-Servicing Agreement with Countrywide Funding Corporation to act as sub-servicer (the "Sub-Servicer"), pursuant to which the Sub-Servicer will purchase the Mortgage Loans, service the Mortgage Loans, pool the Mortgage Loans into Mortgage Pools, and issue the 1998 Mortgage Certificates. TSAHC will monitor the work of the Sub-Servicer.

Although TSAHC was created by the Department, the assets of the Department are not in any way available to TSAHC. Neither the faith nor credit of the State of Texas is available to TSAHC.

The Sub-Servicer is a subsidiary of Countrywide Credit Industries Inc., the nation's largest residential mortgage lender and servicer. The Sub-Servicer, headquartered in Pasadena, California, was founded in 1969. The Sub-Servicer is qualified and experienced in GNMA/Fannie Mae securitization programs, FHA and VA mortgages..

The Master Servicer for the Mortgage Loans financed with proceeds of the Prior Bonds, other than the 1987A Mortgage Loans, is MMC. MMC is engaged in the mortgage banking business, including the origination and servicing of single family purchase loans, single family constructions loans and commercial and multifamily real estate loans. MMC has been in the loan servicing business for over 22 years and is an approved seller servicer for FHA, FHLMC, GNMA, and VA. MMC is headquartered in The Woodlands, Texas and is a subsidiary of the Fort Bend Holding Corp.

THE TRUST INDENTURE

General

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

Funds and Accounts

The following Funds have been established under the Master Indenture: Mortgage Loan Fund; Cost of Issuance Fund; Revenue Fund; Interest Fund; Principal Fund; Special Redemption Fund; Debt Service Reserve Fund; Residual Revenues Fund; Mortgage Reserve Fund; and Expense Fund. In addition, the Eighth Supplemental Indenture establishes the Series 1998/1999A Rebate Fund.

The Series Supplements create within each Fund separate accounts for each Series or related Series of Bonds. The accounts so created do not grant a priority of one Series of Bonds over that of any other Series of Bonds, but are for accounting purposes only.

Mortgage Loan Fund

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

Cost of Issuance Fund

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

Revenue Fund

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

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

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

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

(c) third, to the Expenses Fund, the amount or amounts specified in the Series Supplements applicable to the Bonds then Outstanding as being necessary to pay Department Expenses consisting of amounts to be paid to obtain or maintain Supplemental Mortgage Security;

(d) fourth, to the Debt Service Reserve Fund, an amount which (if any amount is required), when added to the amount already on deposit therein, will equal the Debt Service Reserve Fund Requirement;

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

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

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

For proposed revisions regarding payment of rebate, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Interest Fund and Principal Fund

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

Special Redemption Fund

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

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

Debt Service Reserve Fund and Mortgage Reserve Fund

Amounts in the Debt Service Reserve Fund and the Mortgage Reserve Fund are required to be used to pay the principal or redemption price of or interest on the Bonds if the Revenues are insufficient for such purpose in order of priority set forth below under the subheading "Withdrawals from Funds to Pay Debt Service." Moneys credited to the Debt Service Reserve Fund and Mortgage Reserve Fund, other than a portion of such amounts relating to the Series 1987A Bonds, have been used to acquire Mortgage Certificates.

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

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

For information with respect to proposed changes to the Debt Service Reserve Fund Requirement and the Mortgage Reserve Fund Requirement for the Series 1998/1999A Bonds and subsequent issues of Bonds, see "PROPOSED TRUST INDENTURE AMENDMENTS."

Expense Fund

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

Residual Revenues Fund

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

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

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

Special Mortgage Loan Fund

As a result of the issuance of the Series 1998/1999A Bonds, the Tenth Series Supplement establishes a Special Mortgage Loan Fund as a separate fund pledged (unless withdrawn to make Special Mortgage Loans) to and available for payment of debt service on the Bonds. In the event of any shortfall in funds available to pay any debt service on the Bonds, the Depository shall, upon the request of the Trustee, transfer to the Trustee from the Special Mortgage Loan Fund any amount necessary to provide sufficient funds to pay the amount then due and owing. Moneys on deposit in the Special Mortgage Loan Fund may be withdrawn by the Department for the purpose of acquiring from mortgage lenders Special Mortgage Loans (including participations therein).

Withdrawals from Funds to Pay Debt Service

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

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

Investments

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

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

Other Department Covenants

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

Events of Default

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

Bondholders' Rights in the Event of Default

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

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

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

Application of Proceeds

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

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

(b) to the payment of the interest and principal then due on the Bonds, as follows:

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

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

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

Trustee

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

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

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

Depositories

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

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

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

Supplemental Indentures without Consent of Bondholders

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

Amendment of Indenture with Consent of Bondholders

The Department and the Trustee, at any time and from time to time, may execute and deliver a Supplemental Indenture for the purpose of making any modification or amendment to the Trust Indenture, but

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

Defeasance

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

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

Any moneys held for the payment of any of the Bonds which remain unclaimed for three years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, that the holder thereof will no longer be able to enforce the payment thereof, the Trustee

or the paying agent, as the case may be, must, at the written request of the Department, be repaid to the Department, free from trust, and the Bondholders thereafter may look only to the Department for the payment of such Bonds.

PROPOSED TRUST INDENTURE AMENDMENTS

The Trust Indenture provides that, at any time and from time to time, a Supplemental Indenture of the Department amending or supplementing the Trust Indenture may be adopted modifying any of the provisions of the Trust Indenture or releasing the Department from any of the obligations, covenants, agreements, limitations, conditions or restrictions contained therein. Any such Supplemental Indenture of the Department will be effective no sooner than 40 days after the filing with the Trustee of the consent of those Bondholders who hold at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given. Pursuant to an Eleventh Supplemental Indenture, the Department is seeking to amend the Trust Indenture. By its purchase of any Series 1998/1999A Bond, and of any additional Bonds issued under the Trust Indenture thereafter, the purchaser thereof shall be deemed to have consented to such amendments subject to the right of such purchaser or any subsequent Bondholder to revoke, in writing, such consent prior to the date upon which the requisite percentage of Bondholders consent shall have been obtained.

It is expected that the requisite Bondholder consent to the proposed Trust Indenture amendments will have been received upon redemption of the Refunded Bonds (expected to occur on July 1, 1999) and, therefore, such proposed amendments will become effective on such date.

In order to provide for the more effective provision of housing to residents of the State, upon receipt of the requisite percentage of Bondholders' consent, the Trust Indenture will be amended as follows:

1. The Debt Service Reserve Fund Requirement will be decreased from 4% of the aggregate principal amount of the Bonds Outstanding to the total of the amounts, if any, specified in the Series Supplements. This amendment will not apply to the Series Supplements relating to the Prior Bonds, but will apply to the Series Supplements relating to the Series 1998/1999A Bonds and any subsequent Series of Bonds. Furthermore, the Eighth and Ninth Supplemental Indentures have established the Debt Service Reserve Fund Requirement as 4% of the par amount of the Series 1998/1999A Bonds until the effective date of the proposed Trust Indenture amendments, after which the requirement will be zero. Upon the effective date of the proposed Trust Indenture amendments, proceeds of the Series 1998/1999A Bonds and 1998 Mortgage Certificates on deposit in the Debt Service Reserve Fund will be transferred to the Mortgage Loan Fund.

2. The Mortgage Reserve Fund Requirement will be decreased from one and one-half percent (1½%) of the aggregate principal amount of Bonds Outstanding to the total of the amounts, if any, specified in the Series Supplements. This amendment will not apply to the Series Supplements relating to the Prior Bonds, but will apply to the Series Supplements relating to the Series 1998/1999A Bonds and any subsequent Series of Bonds. Furthermore, the Eighth and Ninth Supplemental Indentures have established the Mortgage Reserve Fund Requirement as 1½% of the par amount of the Series 1998/1999A Bonds until the effective date of the proposed Trust Indenture amendments, after which the requirement will be zero. Upon the effective date of the proposed Trust Indenture amendments, proceeds of the Series 1998/1999A Bonds and 1998 Mortgage Certificates on deposit in the Mortgage Reserve Fund will be transferred to the Mortgage Loan Fund.

3. The definition of Mortgage Lenders will be amended to include non-profit corporations, mortgage companies, the Department and any other entity that the Department determines is qualified.

APPENDIX C-1

GNMA AND THE GNMA CERTIFICATES

APPENDIX C-1

GNMA AND THE GNMA CERTIFICATES

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

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

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

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

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

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

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

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

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

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

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

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

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

GNMA under which such institution undertakes and agrees to assume any part or all of such duties, and no such agreement will detract from or diminish the responsibilities, duties or liabilities of GNMA in its capacity as guarantor.

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

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

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

APPENDIX C-2

FANNIE MAE AND THE FANNIE MAE CERTIFICATES

Mortgage-backed Securities Program

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

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

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

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides") published by Fannie Mae, as modified by the Pool Purchase Contract (hereinafter defined), and, in the case of mortgage loans such as the Mortgage Loans, a Trust Indenture dated as of November 1, 1981, as amended (the "Fannie Mae Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The most recent Fannie Mae Prospectus is dated January 1, 1997 and is updated from time to time.

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

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

Pool Purchase Contract

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

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

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

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

Fannie Mae Certificates

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

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

Payments on Mortgage Loans; Distributions on Fannie Mae Certificates

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

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

APPENDIX D-1

AUDITED FINANCIAL STATEMENTS

OF THE

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

FOR THE FISCAL YEARS ENDED

AUGUST 31, 1997 and 1996

[Report of Independent Auditors]

**AUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEAR
ENDED AUGUST 31, 1998, WILL BE FILED WITH THE NRMSIRs
AND THE SID ON OR BEFORE FEBRUARY 28, 1999.**



The Global Leader

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

Financial Statements

August 31, 1997 and 1996

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

The Governing Board
Texas Department of Housing and Community Affairs:

We have audited the accompanying balance sheets of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund (the Revenue Bond Enterprise Fund) as of August 31, 1997 and 1996, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended and supporting schedules 3 and 4 (supplementary information on pages 33 to 38). These financial statements and schedules are the responsibility of the management of the Texas Department of Housing and Community Affairs. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund at August 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles and the supporting schedules 3 and 4 (supplementary information on pages 33 to 38), in our opinion, present fairly, in all material respects, the information set forth therein.

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

KPMG Peat Marwick LLP

November 14, 1997

Martinez, Mendoza + Colmenero, P.C.



400 WEST 15TH ST.
SUITE 1015
AUSTIN, TX 78701
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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND**

Balance Sheets

August 31, 1997 and 1996

Assets	1997	1996
Cash and temporary investments (notes 2 and 3):		
Cash on hand	\$ 200	200
Cash in bank	2,749,971	3,323,276
Cash in State Treasury	597,733	1,148,977
Short-term investments	69,633,924	100,387,473
Total cash and temporary investments	72,981,828	104,859,926
Investments, net (notes 2 and 3)	717,241,451	625,217,042
Receivables:		
Interest receivable	7,167,963	7,362,349
Notes receivable - related party	1,000,000	1,000,000
Mortgage loans receivable, net (notes 3 and 4)	430,268,692	435,162,673
Consumable inventories	7,735	7,735
Real estate owned, net (note 3 and 5)	1,061,648	1,655,880
Fixed assets:		
Furniture and equipment	1,490,498	1,183,680
Less accumulated depreciation	(684,026)	(449,579)
Deferred issuance costs, net (note 6)	12,989,649	13,443,517
Due from other funds	4,597	-
Other assets	386,280	250,169
	\$ 1,243,916,315	1,189,693,392
Liabilities and Fund Equity		
Accounts payable	\$ 878,260	879,382
Deferred revenues	5,798,360	4,367,596
Revenue bonds payable (notes 2, 3, 4 and 6)	1,124,772,775	1,086,260,942
Commercial paper notes payable	20,555,000	20,250,000
Accrued interest payable	21,748,351	20,611,566
Due to other funds	-	47,165
Employees compensable leave	215,086	215,086
Other liabilities	14,743,725	7,329,310
Total liabilities	1,188,711,557	1,139,961,047
Fund equity - retained earnings, restricted (note 3)	55,204,758	49,732,345
Commitments and contingencies (notes 9, 10 and 11)		
	\$ 1,243,916,315	1,189,693,392

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended August 31, 1997 and 1996

	1997	1996
Operating revenues:		
Interest and investment income	\$ 88,129,563	88,097,672
Other operating revenues	2,997,133	2,643,775
Total operating revenues	<u>91,126,696</u>	<u>90,741,447</u>
Operating expenses:		
Salaries and wages	2,726,977	2,451,626
Payroll related costs	570,544	649,730
Professional fees and services	740,334	1,102,134
Travel	166,014	152,574
Materials and supplies	134,206	150,740
Communication and utilities	95,973	121,828
Repairs and maintenance	122,008	111,784
Rentals and leases	307,795	281,351
Printing and reproduction	22,741	25,671
Depreciation and amortization	686,742	727,664
Interest expense	79,712,269	79,648,084
Other operating expenses	3,926,372	3,570,897
Total operating expenses	<u>89,211,975</u>	<u>88,994,083</u>
Operating income	1,914,721	1,747,364
Gain on sale of investments	5,424,095	2,472,297
Loss on early extinguishment of debt	(1,387,830)	(1,166,283)
Operating transfers	<u>(478,573)</u>	<u>(851,301)</u>
Net income	5,472,413	2,202,077
Fund equity at beginning of year	<u>49,732,345</u>	<u>47,530,268</u>
Fund equity at end of year	<u>\$ 55,204,758</u>	<u>49,732,345</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

Years Ended August 31, 1997 and 1996

	1997	1996
Cash flows from operating activities:		
Proceeds from loan programs	\$ 90,274,915	172,107,974
Proceeds from other revenues	4,728,380	5,493,295
Payments to suppliers for goods and services	(6,155,599)	(5,682,624)
Payments to employees	(3,297,521)	(2,891,656)
Payments for loans provided	(42,816,983)	(63,451,488)
Net cash provided by operating activities	<u>42,733,192</u>	<u>105,575,501</u>
Cash flows from non-capital financing activities:		
Proceeds from debt issuance	269,545,000	239,751,470
Payments for other costs of debt	(2,511,800)	(1,455,569)
Transfers to other funds	(478,573)	(851,301)
Payments to other funds	(47,166)	(97,715)
Payments of principal on debt	(228,583,094)	(274,302,865)
Payments of interest	(76,486,374)	(85,046,758)
Net cash used in non-capital financing activities	<u>(38,562,007)</u>	<u>(122,002,738)</u>
Cash flows from capital and related financing activities:		
Payments for additions to fixed assets	(334,291)	(281,165)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	414,991,574	148,386,838
Proceeds from interest and investment income	59,188,055	50,253,093
Payments to acquire investments	(509,894,621)	(181,661,910)
Net cash provided by (used in) investing activities	<u>(35,714,992)</u>	<u>16,978,021</u>
Net increase (decrease) in cash and cash equivalents	(31,878,098)	269,619
Cash and cash equivalents at beginning of year	104,859,926	104,590,307
Cash and cash equivalents at end of year	\$ 72,981,828	104,859,926

(Continued)

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued

Years Ended August 31, 1997 and 1996

	1997	1996
Reconciliation of cash from operating activities to operating income:		
Operating income	\$ 1,914,721	1,747,364
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation	686,742	727,664
Provision for estimated losses	2,157,300	200,491
Operating income and cash flow categories - classification differences	22,044,993	38,995,244
Changes in assets and liabilities:		
Decrease in receivables	194,386	6,228,721
Decrease in loans	4,893,981	63,285,007
Decrease in mortgage loan acquisition costs	453,868	1,615,994
Decrease in deferred revenues	1,430,764	(3,644,836)
Increase (decrease) in other assets and liabilities, net	8,956,437	(3,580,148)
Net cash provided by operating activities	\$ 42,733,192	105,575,501

During 1997 and 1996, loans totaling \$2,629,300 and \$4,247,100 were foreclosed, respectively, and the related properties acquired were transferred to real estate owned.

See accompanying notes to the financial statements.

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

Notes to Financial Statements

August 31, 1997 and 1996

(1) General Statement and Significant Accounting Policies

General Statement

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

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

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

(Continued)

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

Notes to Financial Statements, Continued

(1) General Statement and Significant Accounting Policies, Continued

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

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

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

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

(Continued)

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

Notes to Financial Statements, Continued

(1) General Statement and Significant Accounting Policies, Continued

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

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

Collateralized Mortgage Obligation Program (CMO) - The taxable CMO was issued pursuant to a separate trust indenture and is secured by an individual trust estate. The proceeds were used by the Department to finance mortgage loans through the acquisition of FNMA certificates. This program is also used to carry out certain housing assistance programs through the housing assistance fund. In 1996, the CMO bonds were refunded and all monies were transferred to the operating fund.

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

(Continued)

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

Notes to Financial Statements, Continued

(1) General Statement and Significant Accounting Policies, Continued

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

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

Continuance Subject to Review

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

(Continued)

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

Notes to Financial Statements, Continued

(1) **General Statement and Significant Accounting Policies, Continued**

Significant Accounting Policies

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

- (a) **Fund Accounting** - The Revenue Bond Enterprise Fund's financial statements have been prepared on the basis of the governmental proprietary fund concept as set forth by the Governmental Accounting Standards Board (GASB). The governmental proprietary fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as a single proprietary fund. The Revenue Bond Enterprise Fund has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 as allowed by GASB Statement No. 20.
- (b) **Investments** - Investments are carried at cost, adjusted for amortization of premiums and accretions of discounts, which are recognized using the interest method over the contractual lives of the related investments. The Department has the ability and a positive intent to hold the investments to maturity. Gains and losses on the sale of securities are determined using the specific identification method.
- (c) **Mortgage-Backed Securities** - Mortgage-backed securities are recorded at cost, net of premiums and discounts as it is the Department's intent to hold the mortgage-backed securities to maturity. The Revenue Bond Enterprise Fund's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities or mortgage pass-through certificates. Mortgage-backed securities are carried at the cost of the investment in the underlying pool of mortgage loans at the time of the exchange, adjusted for principal repayments and any premiums or discounts. Any related discount or premium is recognized using the level-yield method over the estimated life of the securities. The Department's assumptions with respect to prepayments are revised annually to reflect current prepayment experience.

(Continued)

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

Notes to Financial Statements, Continued

(1) General Statement and Significant Accounting Policies, Continued

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

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

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

(f) Allowance for Estimated Losses on Loans and Foreclosed Properties - The allowance for estimated losses on loans is available for future charge-offs on single-family and multifamily loans. The allowance for estimated losses on real estate owned is available for future charge-offs on foreclosed single-family loans.

(Continued)

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

Notes to Financial Statements, Continued

(1) **General Statement and Significant Accounting Policies, Continued**

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

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

- (g) **Commitment Fees** - Commitment fees received in connection with the origination of loans are deferred and recognized using the interest method over the estimated life of the related loans and mortgage-backed securities, or if the commitment expires unexercised it is credited to income upon expiration of the commitment.
- (h) **Deferred Issuance Costs** - Deferred issuance costs on bonds are amortized using the interest method over the contractual life of the bonds to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of deferred issuance costs.
- (i) **Discounts and Premiums on Debt** - Discounts and premiums on debt are recognized using the interest method over the life of the bonds or collateralized mortgage obligations to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt.
- (j) **Fund Equity** - The fund equity of the Revenue Bond Enterprise Fund is restricted for various purposes of the bond trust indentures and other purposes as designated by the Governing Board.

(Continued)

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

Notes to Financial Statements, Continued

(1) General Statement and Significant Accounting Policies, Continued

- (k) Cash Flows - For purposes of reporting cash flows, cash and cash equivalents consist of cash and short-term investments with a maturity at the date of purchase of three months or less which are highly liquid and are readily exchanged for cash at amounts equal to their stated value.
- (l) Interfund Transactions - The Revenue Bond Enterprise Fund has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another. They are accounted for as revenue or expense. All other interfund transactions are reported as transfers.
- (m) Gain/Loss on Refundings - Any gain/loss on refunding of bonds is deferred and amortized as a component of interest expense using the interest method.

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

At August 31, 1997 and 1996, the Revenue Bond Enterprise Fund had cash and cash equivalents, investments and mortgage-backed securities as follows (amounts in thousands):

<u>Cash and Cash Equivalents</u>	<u>Carrying Amount</u>	
	<u>1997</u>	<u>1996</u>
Cash	\$ 2,672	1,743
Money market accounts	676	2,729
Mutual funds	2,006	91
Commercial paper	55	20,250
Guaranteed investment contracts	38,004	78,087
Repurchase agreements	29,281	1,960
U.S. Treasury securities	<u>288</u>	<u>-</u>
	\$ <u>72,982</u>	<u>104,860</u>

(Continued)

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

Notes to Financial Statements, Continued

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

<u>Investments</u>	<u>Carrying Amount</u>	
	<u>1997</u>	<u>1996</u>
Guaranteed investment contracts	123,730	104,916
U.S. Treasury securities	<u>27,473</u>	<u>36,931</u>
	\$ <u>151,203</u>	<u>141,847</u>
 <u>Mortgage-Backed Securities</u>		
Federal National Mortgage Association (FNMA)	\$ 55,216	47,619
Government National Mortgage Association (GNMA)	<u>510,824</u>	<u>435,751</u>
	<u>\$ 566,040</u>	<u>483,370</u>

At August 31, 1997 and 1996, the Revenue Bond Enterprise Fund's cash and deposits amounted to \$2,749,971 and \$3,323,276, respectively, with bank balances of \$2,749,971 and \$3,323,276, respectively. Of those amounts, \$1,765,393 in 1997 and \$594,693 in 1996, were in a depository fully collateralized by securities held with a Trustee in the Department's name or covered by Federal Deposit Insurance Corporation (FDIC) insurance coverage. Collateralized or FDIC insured cash held by and in the name of paying agents, trustees and depositories amounted to \$984,578 in 1997 and \$2,728,583 in 1996.

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

(Continued)

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

Notes to Financial Statements, Continued

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

All investments are registered or are securities held by the Department or its agent in the Department's name (Category 1), except for \$9,939,012 of investment agreements at August 31, 1997 which are unsecured. A summary of investments by type at August 31, 1997 and 1996 is as follows (amounts in thousands):

	<u>1997</u>		<u>1996</u>	
	<u>Carrying</u>	<u>Market</u>	<u>Carrying</u>	<u>Market</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Repurchase and other investment agreements	\$ 191,015	191,015	184,963	184,963
Pass-through certificates	566,040	566,040	483,370	483,777
Other U.S. Government securities	27,761	33,813	36,931	47,144
Mutual funds	2,006	2,006	91	91
Commercial paper	55	55	20,250	20,250
Total investments	\$ <u>786,877</u>	<u>792,929</u>	<u>725,605</u>	<u>736,225</u>

Repurchase agreements and other qualified investment agreements with a carrying amount of \$191,015,347 at August 31, 1997 and \$202,933,918 at August 31, 1996 are generally secured by U.S. government obligations or other marketable securities with market values in excess of the cost, except for \$9,939,012 at August 31, 1997 which was unsecured. At August 31, 1997 and 1996, the agreements were with the following counterparties (amounts in thousands):

<u>Counterparty</u>	<u>Carrying Amount</u>	
	<u>1997</u>	<u>1996</u>
A.G. Langston	\$ 3,886	3,886
Scott Fetzer Financial	1,000	1,000
American International Group	3,436	15,360
Citicorp	4,978	4,090
Berkshire Hathaway	5,850	5,272
Morgan Stanley	50,936	50,094
Morgan Guaranty	388	431
FGIC	58,834	33,062
Eastbridge	25,395	73,881
Core States Bank	315	28
CitiBank	344	1,014
Protective Life	1,780	1,781

(Continued)

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

Notes to Financial Statements, Continued

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

	<u>Carrying Amount</u>	
	<u>1997</u>	<u>1996</u>
Capital Market Services	\$ 12,165	13,035
Chase	9,855	-
Lehman Brothers	1,048	-
Norwest Bank	610	-
Societe Generale	3,042	-
Westdeutsche Bank	<u>7,153</u>	<u>-</u>
	<u>\$ 191,015</u>	<u>202,934</u>

(3) Restricted Assets

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

<u>Program</u>	<u>Mortgage and and Debt Service Reserve</u>	<u>Unspent Bond Proceeds</u>	<u>Revenue Fund</u>	<u>Self- Insurance</u>
Single-family	\$ 31,066	67,403	38,953	3,886
RMRB	5,647	-	3,427	451
GNMA	-	-	422	-
CHMRB	-	-	5,421	-
Multifamily	1,283	-	569	-
93 SF CHMRB	-	-	1,125	-
94/95 SF CHMRB	-	<u>4,027</u>	<u>489</u>	<u>-</u>
Total	<u>\$ 37,996</u>	<u>71,430</u>	<u>50,407</u>	<u>4,337</u>

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

Notes to Financial Statements, Continued

(4) Loans Receivable

Loans receivable as of August 31, 1997 and 1996 consisted of the following (amounts in thousands):

	<u>1997</u>	<u>1996</u>
Single-family loans	\$ 245,737	277,087
Multi-family loans	188,272	160,194
RMRB (1987 Series A) single-family loans	8,608	9,507
Miscellaneous loans	<u>135</u>	<u>136</u>
 Total loans	 442,752	 446,924
 Deferred commitment fees, net of accumulated amortization of \$34,548 in 1997 and \$35,125 in 1996	 (5,899)	 (6,877)
Allowance for estimated loan losses	<u>(6,584)</u>	<u>(4,884)</u>
 Total	 \$ <u>430,269</u>	 <u>435,163</u>

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

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

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

(Continued)

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

Notes to Financial Statements, Continued

(4) Loans Receivable, Continued

The Single-family trust indenture requires the Department to obtain and maintain mortgage pool insurance on loans collateralizing each series of bonds issued under that trust indenture. Except with respect to four series, the requirement has been satisfied by purchasing and maintaining a mortgage pool insurance policy for each bond series. For loans collateralizing the other four series of bonds, the Department has entered into Mortgage Pool Self-insurance Fund Agreements (Agreements) with the Trustee. The funding requirements of these Agreements have been met as of August 31, 1997.

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

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

	<u>1997</u>	<u>1996</u>
Balance at beginning of year	\$ 4,884	4,956
Provisions for estimated losses on loans	1,700	(140)
Self insurance provision	<u>-</u>	<u>68</u>
Balance at end of year	\$ <u>6,584</u>	<u>4,884</u>

(5) Real Estate Owned

Real estate owned for the Single-family program was as follows (amounts in thousands):

	<u>1997</u>	<u>1996</u>
Real estate owned	\$ 1,378	2,166
Allowance for estimated losses	<u>(256)</u>	<u>(510)</u>
Real estate owned, net	\$ <u>1,062</u>	<u>1,656</u>

(Continued)

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

Notes to Financial Statements, Continued

(5) Real Estate Owned, Continued

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

	<u>1997</u>	<u>1996</u>
Balance at beginning of year	\$ 510	952
Amounts recovered (charged off)	93	(92)
Reduction of allowance for losses on real estate owned	<u>(347)</u>	<u>(350)</u>
Balance at end of year	\$ <u>256</u>	<u>510</u>

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

(6) Bonds Payable

Bonds payable activity for the year ended August 31, 1997 consisted of the following (amounts in thousands):

	Original Face <u>Amount</u>	Balance <u>8/31/96</u>	Additions/ <u>Accretions</u>	Maturities/ <u>Prepayments</u>	Balance <u>8/31/97</u>	Final Maturity <u>Date</u>
Single-Family:						
1985 Series C-5.5% to 7.88%	\$ 30,000	20,080	-	20,080	-	2017
1986 Series A-5.125% to 8.25%	83,425	43,165	-	43,165	-	2017
1986 Series B-4.5% to 7.5%	90,280	66,425	-	66,425	-	2017
1987 Series B-5% to 8.2%	77,700	27,000	-	4,745	22,255	2016
1991 Series A-4.8% to 7.15%	81,605	43,085	-	3,900	39,185	2012
1994 Series A/B-8.1% to 9.5%	60,995	60,995	-	16,870	44,125	2016
1994 Series A-7%	34,393	25,235	951	6,495	19,691	2015
1995 Series A-4.15% to 6.15%	85,760	85,760	-	140	85,620	2004
1995 Series B-4.95% to 5.4%	9,605	9,605	-	185	9,420	2008
1995 Series C-6.44% to 7.76%	71,760	71,055	-	11,840	59,215	2017
1996 Series A-4.5% to 6.3%	15,000	-	15,000	2,670	12,330	2028
1996 Series B-5.5% to 6%	42,140	-	42,140	-	42,140	2017
1996 Series C-8.3%	2,000	-	2,000	-	2,000	2017
1996 Series D-5.45% to 6.25%	70,760	-	70,760	1,370	69,390	2028
1996 Series E-3.9% to 6%	98,730	-	98,730	3,325	95,405	2017
Total principal amount		452,405	<u>229,581</u>	<u>181,210</u>	500,776	
Unamortized discount and losses on refundings		<u>(3,751)</u>			<u>(7,193)</u>	
Total single family		<u>448,654</u>			<u>493,583</u>	

(Continued)

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

Notes to Financial Statements, Continued

(6) Bonds Payable, Continued

	Original Face Amount	Balance 8/31/96	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/97	Final Maturity Date
RMRB:						
1987 Series A-6.75% to 9.13%	\$ 30,000	6,385	-	825	5,560	2019
1987 Series D-7.5% to 8.4%	47,000	28,175	-	2,345	25,830	2021
1988 Series A-6.5% to 7.6%	40,920	35,875	-	705	35,170	2018
1989 Series A-6.6% to 7.6%	44,000	18,695	-	2,965	15,730	2016
1989 Series B-7.85%	45,000	<u>19,065</u>	-	<u>2,825</u>	<u>16,240</u>	2018
Total RMRB		<u>108,195</u>	<u>-</u>	<u>9,665</u>	<u>98,530</u>	
GNMA:						
1989 Series A-8.49%	72,000	19,614	-	1,521	18,093	2019
1989 Series B-7.805%	48,250	<u>23,926</u>	-	<u>2,969</u>	<u>20,957</u>	2021
Total GNMA		<u>43,540</u>	<u>-</u>	<u>4,490</u>	<u>39,050</u>	
CHMRB:						
1990 Series A-6.3% to 7.35%	46,600	3,320	-	820	2,500	2011
1990 Series B-7.8%	93,445	34,960	-	3,125	31,835	2023
1991 Series A - 5.25% to 6.95%	36,000	25,665	-	1,675	23,990	2023
1992 Series A and B - Linked Rate averaging 6.90%	59,500	42,900	-	8,100	34,800	2024
1992 Series C - Linked Rate averaging 6.90%	72,700	<u>72,700</u>	-	-	<u>72,700</u>	2024
Total principal		179,545	<u>-</u>	<u>13,720</u>	165,825	
Plus unamortized premium		<u>3,090</u>	<u>-</u>	<u>-</u>	<u>2,833</u>	
Total CHMRB		<u>182,635</u>	<u>-</u>	<u>-</u>	<u>168,658</u>	
SF MRB CHMRB						
1993 Series A-5.85%	11,695	10,885	-	455	10,430	2025
1993 Series B-6.62%	15,000	14,205	-	940	13,265	2025
1993 Series C-6.68%	15,000	14,315	-	535	13,780	2025
1993 Series D-6.76%	8,000	6,955	-	435	6,520	2025
1993 Series E-6.85%	8,780	5,570	-	50	5,520	2025
1994 Series A-6.85%	35,395	35,210	-	1,710	33,500	2026
1994 Series B-6.4%	33,385	33,310	-	720	32,590	2026
1994 Series C-6.25%	15,360	15,360	-	55	15,305	2026
1995 MRRB Series A-6.26%	5,825	5,405	-	1,100	4,305	2015
1995 MRRB Series B-5.7%	2,030	<u>1,785</u>	-	<u>485</u>	<u>1,300</u>	2010
Total SF MRB CHMRB		<u>143,000</u>	<u>-</u>	<u>6,485</u>	<u>136,515</u>	

(Continued)

4. The sale or other disposition of all or any portion of the Mortgage Loans (including Mortgage Certificates) at any time at the election of the Department will be authorized provided that (i) the Rating Agency shall have confirmed that such sale, assignment, transfer, or other disposition will not have an adverse effect on the rating on the Bonds, (ii) the Trustee and the Department shall have received an opinion of bond counsel to the effect that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds, and (iii) to the extent proceeds of such sale are to be used to redeem Bonds, such Bonds shall be redeemed only pursuant to the applicable optional redemption provisions unless otherwise provided in a Series Supplement.

5. The provision requiring the Trustee to evaluate the Department's hiring practices will be deleted.

6. A provision permitting an automatic investment of monies not otherwise invested in the Trustee's cash management fund will be added.

7. Conditional notices of redemption for the Bonds will be allowed.

8. The definition of "Costs of Issuance" will be amended to include costs incurred in marketing or advertising the Program.

9. The definition of "Supplemental Mortgage Security" will be amended to include other forms of credit enhancement or collateral specified as such in a Series Supplement.

10. The provision regarding withdrawals from the Special Redemption Fund will be amended to allow, upon delivery of a Cashflow Statement, withdrawals in connection with the purchase of Bonds in an amount exceeding the Redemption Price of such Bonds.

11. The requirements for Cashflow Statements will be amended to provide that the scenarios and assumptions upon which the projections in such Cashflow Statements are based will be established in a manner which will not adversely affect the ratings on the Bonds.

12. The provision regarding application of Revenues will be amended to allow payment of any rebate liability as a first priority payment, and to allow transfers to the Special Mortgage Loan Fund when required to maintain the tax exempt status of any Bonds, to the extent that such transfers are consistent with the most recently filed Cashflow Statement.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

The Department has entered into a Depository Agreement relating to the Bonds (the "Depository Agreement"), by and among the Department, the Trustee, and the Treasurer of the State of Texas (now, the Comptroller of Public Accounts of the State of Texas), acting by and through the Texas Treasury Safekeeping Trust Company, a limited purpose corporate trust company organized under the laws of the State of Texas (the "Trust Company"). Pursuant to the Depository Agreement, the Trust Company will hold all moneys and securities required to be credited to all Funds (other than the Principal Fund, Interest Fund, Special Redemption Fund, Special Mortgage Loan Fund, Cost of Issuance Fund and the Expense Fund). All money and securities required by the Trust Indenture to be credited to such Funds are required to be remitted to the

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

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

YEAR 2000 COMPLIANCE

Possible Impact of the Issue

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

Department's Remediation Strategy

Commencing with the fiscal year 1997, the Department undertook an assessment of the impact and cost involved in addressing and resolving the Year 2000 issue. In that regard, a Department committee was assembled to create business awareness and a project leader was appointed to assist in development and implementation of a Year 2000 project plan. For inventory purposes, the Department divided its systems into subsystems consisting of software (in-house and packaged), hardware (printers, servers, and routers), interfaces (external interfaces to agencies and companies) and embedded systems (fax machines, phones, elevators, etc.). In addition, letters requesting information concerning Year 2000 compliance were sent to vendors and strategic business partners, including paying agents, DTC, Texas Treasury Safekeeping Trust Company, trustees, master servicers, sub-servicers, investment providers, credit enhancers, and other parties involved in the payment, collection, and/or remittance of funds to or from the Department or to the bondholders. As a result of its inventory of its own systems, the Department has determined that 80% of the

Department's in-house applications are Year 2000 compliant. It further anticipates that all of such in-house applications will be Year 2000 compliant by December, 1998. Consequently, a contingency plan has not been developed for in-house applications; however, the Department will reassess the status of Year 2000 compliance in January, 1999 and develop contingency plans at that time for all critical systems that are not then Year 2000 compliant. A contingency plan for embedded systems of the Department is currently being devised. The Department estimates that the total cost to the Department of its Year 2000 remediation strategy will be in the range of \$200,000 as estimated in the Department's 1998-1999 Biannual Operating Plan.

Third-Party Vendors and Suppliers

As indicated above, the Department has contacted various vendors and suppliers in order to determine whether they will be Year 2000 compliant on a timely basis. Based upon responses received from such vendors and suppliers, as of September, 1998, 89% of the commercial applications were represented to be Year 2000 compliant. While the Department is implementing a Year 2000 strategy, it cannot control the operations of other entities. Any particular manifestation of the Year 2000 issue by entities with whom the Department does business or any material or adverse manifestation of Year 2000 issue on the economy as a whole could materially and adversely affect the ability of the Department to deliver its services and/or its financial condition.

Year 2000 Disclaimer

All information contained herein is obtained from sources believed to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, such information is provided "as is" without warranty of any kind and, in particular, no representation or warranty, expressed or implied, is made nor to be inferred as to the accuracy, timeliness or completeness, of any such information.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Series 1998/1999A Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Series 1998/1999A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 1998/1999A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include the various mortgage eligibility, arbitrage, targeted area, recapture, use of proceeds and information reporting requirements discussed more fully below under the caption "Federal Income Tax Requirements." Bond Counsel's opinion will assume continuing compliance with the procedures, safeguards and covenants of the Servicer in the Trust Indenture and the Program Documents pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Series 1998/1999A Bonds for federal income tax purposes, and in addition, will rely on representations by the Department, the Underwriters, the Master Servicer, the Mortgage Lenders, and the Verification Agent with respect to matters solely within the knowledge of the Department, the Underwriters, the Master Servicer, the Mortgage Lenders, and the Verification Agent, respectively, which representations Bond Counsel has not independently verified. If the Department, a Mortgage Lender, the Master Servicer, or the Verification Agent

fails to comply with such procedures, safeguards and covenants or if such representations should be determined to be inaccurate or incomplete, interest on the Series 1998/1999A Bonds could become taxable from the date of original delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26 percent of so much of such taxable excess as does not exceed \$175,000 plus 28 percent of so much of such taxable excess as exceeds \$175,000. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the Series 1998/1999A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 1998/1999A Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, acquisition, ownership or disposition of, the Series 1998/1999A Bonds.

Prospective purchasers of the Series 1998/1999A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 1998/1999A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to its attention or to reflect any changes in any law that may thereafter occur or become effective.

Federal Income Tax Requirements

General

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

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

In addition, to be "qualified mortgage bonds," the costs of issuance financed by an issue of bonds cannot exceed two percent (2%) of the proceeds of such issue. Further, the amount of such an issue of bonds, other than certain refunding bonds, when added to the amount of all other private activity bonds issued within the State during calendar year 1998 must not exceed the unified volume cap for private activity bonds imposed by the Code and applicable regulations.

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

Mortgage Eligibility Requirements

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

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

First-time Homebuyer Requirement. The Code requires that at least 95% of the net proceeds of an issue used to provide owner-financing (except for targeted areas and certain exceptions related to residences financed pursuant to a contract for deed, where such requirement does not apply) must be used to finance residences of mortgagors who have not had a present ownership interest in any principal residence during the three-year period prior to execution of the mortgage loan; provided, however, that the three-year requirement does not apply (i) to Targeted Area Loans, (ii) Mortgage Loans made to provide financing for acquisition of a residence in an area determined to be a disaster area under the Robert T. Stafford Disaster Relief and Emergency Act, provided that such Mortgage Loan must be provided within two years after the date of such determination or (iii) in the case of land possessed under a contract for deed by a mortgagor whose principal residence is located on such land and whose family income is not more than 50% of the AMFI (the "Contract for Deed Exception"), and provided, further, that the Department has the right to approve, on a case-by-case basis, a limited number of Mortgage Loans that do not satisfy the three-year requirement.

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

Purchase Price Limitations. The Code requires that the purchase price of the residence may not exceed 90% of the average area purchase price applicable to such residence, or, in the case of residences in certain targeted areas or disaster areas, 110% of the applicable average area purchase price. The Internal Revenue Service has published "safe harbor rules" identifying purchase price limitations in the State that are considered to be in compliance with the requirements of the Code. The Department has determined to rely on the safe harbor figures for purposes of the Series 1998/1999A Bonds.

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

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

Targeted Area Requirement

The Code requires that either (a) an amount equal to at least 20% of the lendable proceeds of an issue of qualified mortgage bonds or (b) an amount equal to 40% of the average annual aggregate principal amount of mortgages executed during the immediately preceding three (3) calendar years for single family owner occupied residences in the targeted area, if such amount is less, must be reserved, for at least one year from the date such proceeds are first made available to purchase mortgage loans, for the purchase of mortgage loans to provide financing for residences located within one or more targeted areas consisting of census tracts identified by the United States Treasury Department as having a substantial concentration of lower-income persons and areas of chronic economic distress designated by the State and approved by HUD. The State, at the request of the Department, has designated and HUD and the Secretary of the Treasury have approved, certain "areas of chronic economic distress" within the State. In addition, the Department has determined that there are "qualified census tracts" within the State. The Department initially has reserved 20% of the lendable proceeds of the Series 1998A Bonds for Targeted Area Residences.

Requirements Related to Arbitrage

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

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

Reporting Requirements

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

Redemption Requirements

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

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

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

Recapture Requirements

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

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

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

Compliance with Tax Requirements

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

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

The Department has covenanted in the Trust Indenture and the Mortgage Lenders and the Master Servicer have covenanted in the Program documents to comply with the above-described requirements of the Code as applied to the Series 1998/1999A Bonds and to establish and follow procedures and safeguards sufficient to ensure compliance with such requirements. Nevertheless, if the Department, a Mortgage Lender, or the Master Servicer should fail to comply with such covenants, interest on the Series 1998/1999A Bonds could become includable in gross income for federal income tax purposes from the date of issuance thereof, regardless of the date on which the event causing such includability occurs.

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, dated as of November 1, 1998 (the "Disclosure Agreement") between the Trustee and the Department, the Department has made the following agreement for the benefit of the holders and beneficial owners of the Series 1998/1999A Bonds. The Department is required to observe the Disclosure Agreement for so long as it remains obligated to advance funds to pay the Series 1998/1999A Bonds. Under the Disclosure Agreement, the Department will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from said vendors.

No Eligible Borrower is an "obligated person" (as defined in Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended) for whom financial information or operating data would be presented in the final Official Statement relating to the Series 1998/1999A Bonds had such Eligible Borrower been known at the time of the offering of the Series 1998/1999A Bonds.

Annual Reports

The Department will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Department of the general type included in this Official Statement under the headings "APPENDIX D-1 -- AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEARS ENDED AUGUST 31, 1997 and 1996" (financial statements for the last completed fiscal year will be unaudited, unless an audit is performed in which event the audited financial statements will be made available), and "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES" and "APPENDIX F-2 -- OTHER INDEBTEDNESS OF THE DEPARTMENT." The Department will update and provide this information within six months after the end of each Fiscal Year ending in or after 1998. The Department will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

The Department's most recent Fiscal Year ended August 31, 1998. Accordingly, it is required to provide updated information by February 28 in the year 1999 and in each year thereafter, unless the Department changes its Fiscal Year. If the Department changes its Fiscal Year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Department will provide timely notices of certain events to certain information vendors. The Department will provide notice of any of the following events with respect to the Series 1998/1999A Bonds, if such event is material to a decision to purchase or sell Series 1998/1999A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 1998/1999A Bonds; (7) modifications to rights of securities holders; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 1998/1999A Bonds; (11) rating changes; and (12) amendments to the Disclosure Agreement in connection with financial statements or operating data which the Department is required to disclose. In addition, the Department will provide timely notice of any failure by the Department to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Department will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

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

Limitations and Amendments

The Department has agreed to update information and to provide notices of material events only as described above. The Department has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Department makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series

1998/1999A Bonds at any future date. The Department disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its Disclosure Agreement or from any statement made pursuant to its Disclosure Agreement, although holders of Series 1998/1999A Bonds may seek a writ of mandamus to compel the Department to comply with its Disclosure Agreement.

The Disclosure Agreement may be amended by the Department and the Trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Department, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell any Series 1998/1999A Bonds in the primary offering of the Series 1998/1999A Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Disclosure Agreement that authorizes such an amendment) of the Outstanding Series 1998/1999A Bonds consent to such amendment or (b) a person that is unaffiliated with the Department (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Holders and beneficial owners of the Series 1998/1999A Bonds. If the Department so amends the Disclosure Agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of any change in the type of financial information and operating data so provided. The Department may also amend or repeal the provisions of the Disclosure Agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling any Series 1998/1999A Bonds in the primary offering of such Series 1998/1999A Bonds.

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

Duties, Immunities and Liabilities of Trustee

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

Compliance with Prior Continuing Disclosure Agreements

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

RATINGS

It is a condition of the Underwriters' obligation to purchase the Series 1998/1999A Bonds, that Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") shall have assigned ratings to the Series 1998/1999A Bonds of "Aaa" and "AAA," respectively. An explanation of the significance of such ratings may be obtained from the companies furnishing the rating. The ratings do not represent recommendations to buy, sell, or hold the Series 1998/1999A Bonds. The ratings reflect only the respective views of such organizations at the time such ratings were assigned and the Department makes no representation as to the appropriateness of the ratings.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 1998/1999A Bonds.

UNDERWRITING

The Series 1998/1999A Bonds (except for the Series 1998A Bonds maturing on July 1, 2029, and the Series 1998B Bonds maturing on January 1, 2022 (collectively the "Placed Bonds") which are being placed directly with Fannie Mae) are being purchased from the Department by the Underwriters listed on the cover page of this Official Statement. The Underwriters have jointly and severally agreed, pursuant to separate Bond Purchase Agreements, to purchase the Series 1998 Bonds (except for the Placed Bonds) and the Series 1999A Bonds at the respective principal amounts thereof, for which they will be paid an underwriting fee of \$908,079.32 with respect to the Series 1998 Bonds and \$199,909.34 with respect to the Series 1999A Bonds. The Bond Purchase Agreements for the Series 1998/1999A Bonds provide, among other things, that the Underwriters' and Fannie Mae's obligations to make such purchase are subject to certain terms and conditions set forth in such Bond Purchase Agreements, including the approval of certain legal matters by their counsel and certain other conditions. The initial public offering prices of the Series 1998/1999A Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the Series 1998/1999A Bonds (except for the Placed Bonds) offered to the public to certain dealers (including dealers depositing the Series 1998/1999A Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices other than the public offering prices stated on the inside front cover hereof.

FINANCIAL ADVISOR

Dain Rauscher Incorporated (the "Financial Advisor"), is employed by the Department as an independent financial advisor in connection with the issuance of the Series 1998/1999A Bonds and, in such capacity, has responsibility primarily for providing the Department with information on interest rates, reoffering prices and underwriting fees on similar financings being sold under current market conditions. The Financial Advisor has not independently verified any of the information set forth herein. Accordingly, no assurance is made by the Financial Advisor as to the accuracy or completeness of any information herein. No person is permitted to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to such completeness and accuracy.

FINANCIAL STATEMENTS

The financial statements of the Texas Department of Housing and Community Affairs - Revenue Bond Enterprise Fund for the fiscal years ended August 31, 1997 and 1996 included in this Official Statement have been audited by KPMG Peat Marwick LLP, independent certified public accountants, and Martinez, Mendoza, and Colmenero, P.C., independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP and Martinez, Mendoza, and Colmenero, P.C.

The unaudited interim financial statements of the Department for the eleven-month period ended July 31, 1998 are included in Appendix D-2 to this Official Statement.

AUDITED FINANCIAL STATEMENTS OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - REVENUE BOND ENTERPRISE FUND FOR THE FISCAL YEAR ENDED AUGUST 31, 1998, WILL BE FILED WITH THE NRMSIRS AND THE SID ON OR BEFORE FEBRUARY 28, 1999.

THE SERIES 1998/1999A BONDS ARE SECURED ONLY BY THE ASSETS AND REVENUES DESCRIBED UNDER THE CAPTION "SECURITY FOR THE BONDS" AND NOT BY ANY OTHER SOURCE.

LITIGATION MATTERS

The Department is expected to deliver a certificate upon the closing and delivery of the Series 1998/1999A Bonds stating that there is no controversy or litigation of any nature pending or, to its knowledge, threatened to restrain or enjoin the issuance or delivery of the Series 1998/1999A Bonds, or in any way contesting or affecting the validity of the Series 1998/1999A Bonds, the Trust Indenture, or any proceedings of the Department taken with respect to the issuance or sale of the Series 1998/1999A Bonds, or the existence or powers of the Department insofar as they relate to the authorization, sale and issuance of the Series 1998/1999A Bonds or such pledge or application of moneys and security.

LEGALITY FOR INVESTMENT

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

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

To the extent that the Series 1998/1999A Bonds constitute "collateralized mortgage obligations that have a stated final maturity of greater than 10 years" within the meaning of the Texas Public Funds Investment Act, the Series 1998/1999A Bonds are not an "authorized investment" for a state agency, a local government, or other investing entity subject to the provisions of the Public Funds Investment Act.

No representation is made that the Series 1998/1999A Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Department has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Series 1998/1999A Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 1998/1999A Bonds for such purposes.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., the verification agent, will verify the mathematical accuracy of the computations relating to (i) the sufficiency of projected cashflow receipts and disbursements on the Mortgage Loans and other funds pledged to pay the principal of and interest on the Bonds under certain assumptions and (ii) the computation of yield on the Bonds contained in the schedules provided to and used by Bond Counsel in its determination that interest on the Series 1998/1999A Bonds is excludable from gross income for federal income tax purposes. Causey Demgen & Moore, Inc. will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 1998/1999A Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Series 1998/1999A Bonds are subject to the approving opinion of Vinson & Elkins L.L.P., Bond Counsel. Certain legal matters incident to the issuance of the Series 1998/1999A Bonds are subject to the approving opinion of the Attorney General of Texas. Certain legal matters will be passed upon for the Department by its General Counsel, Betty J. Marks, Esq., and by its Disclosure Counsel, McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Mayor Day Caldwell & Keeton, L.L.P. and Wickliff & Hall, P.C.

In its capacity as Bond Counsel, Vinson & Elkins L.L.P. has reviewed the information appearing in this Official Statement describing the Series 1998/1999A Bonds, the security therefor and the federal income tax status thereof, particularly the information appearing under "PLAN OF FINANCE," "THE SERIES 1998/1999A BONDS" (but excluding the information contained therein under the subheadings "Description of 1987 Transferred Mortgage Assets and 1987 Recycled Mortgage Certificates," "Applicable Amounts and Prepayment Standard," and "DTC and Book-Entry"), "SECURITY FOR THE BONDS" (but excluding the information set forth under the subheadings "Prior Bonds", "Mortgage Loans and Mortgage Certificates" and "Investment of Funds") "THE PROGRAM AND THE MORTGAGE LOANS (but excluding information set forth under the headings "Community Home Buyer's Program" and "The Master Servicers"), "THE TRUST INDENTURE," "PROPOSED AMENDMENTS TO TRUST INDENTURE," "TEXAS TREASURY SAFEKEEPING TRUST COMPANY," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "APPROVAL OF LEGALITY," APPENDIX A, and APPENDIX E, to this Official Statement, solely to determine whether such information fairly and accurately describes or summarizes the provisions of the Trust Indenture and the Series 1998/1999A Bonds. Bond Counsel was not requested to participate and did not take part in the preparation of any other information contained herein and did not assume responsibility with respect thereto or undertake independently to verify the accuracy of any of such information. Except as set forth above, Bond Counsel does not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon such firm's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

ADDITIONAL INFORMATION

Certain provisions of the Act and the Trust Indenture are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. The information contained above is subject to change without notice and no implication is to be derived therefrom or from the sale of the Series 1998/1999A Bonds that there has been no change in the affairs of the Department from the date hereof.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Department and the purchasers or owners of any of the Series 1998/1999A Bonds.

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

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

By: /s/ Daisy Stiner
Acting Executive Director

Dated: November 6, 1998

APPENDIX A

GLOSSARY

APPENDIX A

GLOSSARY

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

"Act" shall mean the Texas Housing Agency Act constituting Chapter 823, Acts of the 66th Legislature, Regular Session, Texas 979 (codified as Article 12691-6 Vernon's Annotated Texas Civil Statutes) as amended from time to time or other law governing the Agency until September 1, 1991; and, from and after September 1, 1991, shall mean Article 4413(501), Vernon's Annotated Texas Civil Statutes, as amended from time to time or other law governing the Agency until September 1, 1993; and from and after September 1, 1993 shall mean Chapter 2306, Government Code and Article 4413(501), Vernon's Annotated Texas Civil Statutes, as amended by the 73rd Legislative Session and 75th Legislative Session, and as amended from time to time.

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

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

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

"Bond Year" shall mean each twelve-month period ending December 31.

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

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

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

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

*"Cost of Issuance" shall mean the items of expense payable or reimburseable directly or indirectly by the Department and related to the authorization, sale, issuance and remarketing of Bonds, which items of

*See PROPOSED TRUST INDENTURE AMENDMENTS"
for proposed changes to such definition.

expense shall include without limiting the generality of the foregoing: travel expenses; printing costs, costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee and the Depository, and paying agents; bond discounts; underwriting fees and remarketing fees; legal fees and charges; consulting fees and charges; auditing fees and expense; financial advisors' fees; credit rating fees; initial amounts paid to obtain Supplemental Mortgage Security; fees and charges for exemption, transportation and safekeeping of Bonds; and other administrative or other costs if issuing, carrying, repaying, and remarketing Bonds and investing the Bond proceeds.

*"Debt Service Reserve Fund Requirement" shall mean (i) an amount equal to 4% of the aggregate principal amount of the Bonds Outstanding, or (ii) such greater amount as may be required by a Supplemental Indenture.

"Department" shall mean the Texas Department of Housing and Community Affairs and its successors and assigns. The terms Department and Agency shall be used interchangeably.

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

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

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

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

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

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

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

*See PROPOSED TRUST INDENTURE AMENDMENTS"
for proposed changes to such definition.

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

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

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

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

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

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

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

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

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

- (a) Government Obligations;
- (b) FHA debentures;
- (c) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America acting pursuant to authority granted by the Congress of the United States, including, without limitation the following: Fannie Mae (excluding mortgage-backed securities valued at greater than par on the portion of unpaid principal and mortgage-backed securities representing payment of principal only or interest only with respect to the underlying loans); FHLMC, GNMA, Student Loan Marketing Association, or other successor agencies;
- (d) Obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

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

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

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

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

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

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

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

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

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

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

"Mortgage Certificate" shall mean a GNMA Certificate or a Fannie Mae Certificate that evidences beneficial ownership of and a 100% participation in a Mortgage Pool.

*"Mortgage Lender" shall mean any bank or trust company, savings bank, mortgage company, mortgage banker, credit union, national banking association, savings and loan association, building and loan association, life insurance company or other financial or lending institution authorized to transact business in the State that is approved by the Department to act as a mortgage lender under the Program.

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

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

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

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

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

*"Mortgage Reserve Fund Requirement" shall mean as of any date of calculation, an amount equal to 1.5% of the aggregate principal amount of Bonds then Outstanding.

"1987 Transferred Mortgage Assets" shall mean each of the 1987A Mortgage Loans and the 1987D Mortgage Certificates.

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

"1987D Mortgage Certificates" shall mean those Mortgage Certificates which are owned by the Department and which were acquired with the proceeds of the 1987D Bonds.

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

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

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

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

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

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

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

"RD" shall mean the United States Department of Agriculture, Rural Development, formerly known as Farmers Home Administration.

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

"Series 1987A Bonds" shall mean those Bonds of a Series dated as of November 1, 1987, and designated as the Agency's Residential Mortgage Revenue Bonds, Series 1987A.

"Series 1987D Bonds" shall mean the Agency's Residential Mortgage Revenue Bonds, Series 1987D, dated as of December 1, 1987, and issued in the original aggregate principal amount of \$47,000,000.

"Series 1998A Bonds" shall mean the Department's Residential Mortgage Revenue Bonds, Series 1998A, dated as of November 1, 1998.

"Series 1998B Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 1998B, dated as of November 1, 1998.

"Series 1998A Series Supplement" shall mean the Eighth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1998, as amended from time to time.

"Series 1998B Series Supplement" shall mean the Ninth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1998, as amended from time to time.

"Series 1999A Bonds" shall mean the Department's Residential Mortgage Revenue Refunding Bonds, Series 1999A, dated as of the date of delivery thereof.

"Series 1999A Series Supplement" shall mean the Tenth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1998, as amended from time to time.

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

"State" shall mean the State of Texas.

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

"Supplemental Mortgage Security" shall mean a mortgage pool insurance policy or any other form of credit enhancement with respect to all or any portion of the Mortgage Loans (including any mortgage pool self-insurance reserve established by the Agency with respect to Mortgage Loans and any guaranty of GNMA or Fannie Mae with respect to a GNMA or Fannie Mae Certificate), other than insurance from the FHA, a guaranty from the VA, or private mortgage insurance on the portion of the principal balance of a Mortgage Loan which exceeds 80% of the lesser of the purchase price or appraised value of the mortgaged property.

APPENDIX B

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

APPENDIX B

SUMMARY OF CERTAIN MORTGAGE INSURANCE PROGRAMS AND TEXAS FORECLOSURE LAWS

Introduction

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

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

FHA Insurance Programs

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

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

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

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

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

Department of Veterans Affairs Mortgage Guaranty Program

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

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

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

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

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

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

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

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

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

Private Mortgage Insurance Programs

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

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

private mortgage insurers is generally limited to first mortgage loans or contracts on improved real estate, with amortization over the term of the contract in substantially equal monthly payments, including accruals for taxes and insurance.

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

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

Mortgage Pool Self-Insurance Reserve

In connection with the Series 1987A Bonds, the Department has established a mortgage pool self-insurance reserve in lieu of acquiring a mortgage pool insurance policy. The Agency and the State Treasurer (now, the Comptroller of Public Accounts of the State of Texas) entered into a Mortgage Pool Self Insurance Fund Agreement with respect to the Series 1987A bonds (the "SIF Agreement") pursuant to which the Agency agreed: (i) to establish a Mortgage Pool Self-Insurance Fund (the "Self-Insurance Fund") and to deposit therein an initial amount equal to 1% of the aggregate principal amount of the 1987A Mortgage Loans acquired; (ii) to contribute to the Self-Insurance Fund, until the amount deposited therein equals the Required Fund Amount (as hereinafter defined), all earnings resulting from the investment of the moneys held in the Self-Insurance Fund, together with an annual premium (included as a Department Expense) payable from Revenues in an amount equal to 0.15% per annum of the aggregate outstanding principal balance of the 1987A Mortgage Loans acquired; and (iii) to apply amounts held in the Self-Insurance Fund to cover cashflow deficiencies with respect to 1987A Mortgage loans that are deemed to be in default under applicable FHA rules and regulations ("Advance Payments"), and to cover any Loss (as hereinafter defined) incurred in connection with a defaulted 1987A Mortgage Loans acquired by remitting appropriate amounts from the Self-Insurance Fund to the Trustee for deposit into the Revenue Fund. The term "Required Fund Amount" means an amount equal to 1.8% of the initial aggregate principal balance of the 1987A Mortgage Loans acquired, reduced by the aggregate amount of any unreimbursed Advance Payments and any Losses paid from the Self-Insurance Fund. The term "Loss" means, with respect to a defaulted 1987A Mortgage Loan, an amount equal to: (a) the sum of (i) the unpaid principal balance of the 1987A Mortgage Loan as of the date of disposition thereof by the Department, (ii) the accumulated delinquent interest on the 1987A Mortgage Loan until the date of the payment of FHA insurance proceeds, and (iii) all advances made by or on behalf of the Department in connection with the 1987A Mortgage Loan to pay hazard insurance premiums, FHA insurance premiums, real estate property taxes, property protection and preservation expenses, property sale expenses and foreclosure costs; reduced by (b) the sum of (i) the net proceeds received upon disposition of the Series 1987A Mortgage Loan, and (ii) any amount received by or on behalf of the Department pursuant to FHA mortgage insurance with respect to the 1987A Mortgage Loan. As of July 31, 1998, the amount credited to the Self-Insurance Fund with respect to the 1987A Mortgage Loans was \$405,992. The current investment policy of the Department, which is subject to change at any time, is to invest monies in the Self-Insurance Fund in United States Treasury Securities and money-market accounts.

Although the amounts held in the Self-Insurance Fund are not part of the Trust Estate, the Agency covenanted in the Series Supplement pertaining to the Series 1987A Bonds to create and maintain the Self-Insurance Fund and to apply the moneys therein to pay Advance Payments and Losses incurred in connection with 1987A Mortgage Loans. The Department is not obligated to fund the Self-Insurance Fund beyond the Required Fund Amount and the Department's obligation to contribute amounts into the Self-Insurance Fund up to the Required Fund Amount is limited to amounts available from investment earnings on the Self-Insurance Fund and from Revenues in an amount equal to 0.15% per annum of the aggregate outstanding principal balance of the 1987A Mortgage Loans. No other assets or revenues of the Department are required to be contributed to the Self-Insurance Fund or applied to pay Advance Payments or Losses.

The SIF Agreement contains provisions permitting it to be amended to provide security for Bonds other than the Series 1987A Bonds, subject to the requirement that the Department shall have received written confirmation from each Rating Agency that such amendments will not impair any rating then in effect on the Bonds.

Mortgage Pool Insurance

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

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

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

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

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

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

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

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

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

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

foreclosure) for which advances were previously made or if a claim under the policy is not filed. Claim settlements under a mortgage pool insurance policy will usually be reduced by the sum of unreimbursed claims advances.

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

Standard Hazard Insurance Policies

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

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

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

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

Foreclosure Laws

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

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

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

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

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

Notes to Financial Statements, Continued

(6) Bonds Payable, Continued

	Original Face Amount	Balance 8/31/96	Additions/ Accretions	Maturities/ Prepayments	Balance 8/31/97	Final Maturity Date
Multifamily:						
1984 Series A and B Variable Rate Demand Multifamily (letter of credit/surety bond program) variable rate currently 5.25%	34,400	34,400	-	-	34,400	2006
Series 1984 (Allied Bank Private Placement-Summer Bend at Las Colinas) -variable rate currently at 8%	10,100	8,790	-	70	8,720	1999
1985 Series A (guaranteed by Phoenix Mutual Life) - 8.875%	7,560	3,400	-	3,400	-	2007
1987/1993 Series A and B Refunding (High Point III Development/ Remington Hill Development) - 2.41% in 1994 and 2.45% in 1993	26,370	26,370	-	-	26,370	2023
1987 Series (South Texas Rental Housing) - 9.5%	1,400	1,215	-	32	1,183	2012
1993 Residential Rental (National Center)	16,775	16,245	-	255	15,990	2024
1991 Series A and B Refunding (guaranteed by Phoenix Mutual Life) - 6.25%	21,085	8,905	-	8,905	-	2005
1996 Series A and B (Brighton's Mark) - 6.13%	9,748	9,748	158	-	9,906	2026
1996 Series A and B (Marks of Las Colinas) - 5.65%	14,870	14,870	221	-	15,091	2026
1996 Series A and B (Braxton's Mark) - 5.81%	14,274	14,274	219	-	14,493	2026
1996 Series A,B,C and D (Dallas-Ft. Worth) - 6% to 10%	22,150	22,150	-	120	22,030	2026
1996 Series A,B,C and D (Harbors and Plumtree) - 5.9% to 10%	13,050	-	13,050	75	12,975	2026
1996 Series A and B (NHP Foundation) - 5.55% to 6.4%	27,560	-	27,560	155	27,405	2027
Total principal amount		160,367	<u>41,208</u>	<u>13,012</u>	188,563	
Unamortized (discount)		(130)			(126)	
Total Multi-family		<u>160,237</u>			<u>188,437</u>	
Total		<u>\$ 1,086,261</u>			<u>1,124,773</u>	

(Continued)

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

Notes to Financial Statements, Continued

(6) Bonds Payable, Continued

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

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

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

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

The CHMRB Program currently has a deficit in fund equity of approximately \$279,000. Management intends to evaluate the ability of the trust estate to provide for future cash flow in amounts sufficient to meet the debt service requirements of the bonds. The bonds in this Program are insured by GNMA/FNMA for the timely scheduled payment of all principal and interest on the bonds.

(Continued)

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

Notes to Financial Statements, Continued

(6) Bonds Payable, Continued

The Single Family 1994/1995 - Collateralized Home Mortgage Revenue Bond Program currently has a deficit in fund equity of approximately \$109,000. Management intends to evaluate the ability of the trust estate to provide for future cash flow in amounts sufficient to meet the debt service requirements of the bonds. The bonds in this Program are insured by GNMA/FNMA for the timely scheduled payment of all principal and interest on the bonds.

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

Bond contractual maturities (principal only) at August 31, 1997 are as follows (amounts in thousands):

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 7,220	8,700	8,175	10,730	7,790	458,161	500,776
RMRB	920	1,385	1,025	915	655	93,630	98,530
GNMA	4,004	3,572	3,189	2,849	2,547	22,889	39,050
CHMRB	830	905	950	995	310	298,350	302,340
Multifamily	<u>1,146</u>	<u>1,235</u>	<u>1,323</u>	<u>1,458</u>	<u>1,417</u>	<u>181,984</u>	<u>188,563</u>
Total	\$ <u>14,120</u>	<u>15,797</u>	<u>14,662</u>	<u>16,947</u>	<u>12,719</u>	<u>1,055,014</u>	<u>1,129,259</u>

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

(Continued)

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

Notes to Financial Statements, Continued

(6) Bonds Payable, Continued

Bond maturities (principal and interest) at August 31, 1997 are as follows (amounts in thousands):

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Thereafter</u>	<u>Total</u>
Single-family	\$ 38,299	39,352	38,372	40,469	36,941	851,891	1,045,324
RMRB	8,676	9,071	8,603	8,416	8,083	195,752	238,601
GNMA	7,124	6,376	5,710	5,118	4,591	38,778	67,697
CHMRB	21,317	21,336	21,320	21,299	20,558	750,848	856,678
Multifamily	<u>12,857</u>	<u>12,868</u>	<u>12,876</u>	<u>12,925</u>	<u>12,793</u>	<u>351,766</u>	<u>416,085</u>
Total	\$ <u>88,273</u>	<u>89,003</u>	<u>86,881</u>	<u>88,227</u>	<u>82,966</u>	<u>2,189,035</u>	<u>2,624,385</u>

Deferred issuance costs at August 31, 1997 and 1996 consist of the following (amounts in thousands):

	<u>1997</u>	<u>1996</u>
Deferred issuance costs	\$ 23,607	26,298
Less: accumulated amortization	<u>(10,617)</u>	<u>(12,854)</u>
	\$ <u>12,990</u>	<u>13,444</u>

(7) Employee Benefits

The State of Texas provides retirement benefits, to which Department employees contribute, and certain employee insurance coverage through the Employees Retirement System of Texas (ERS), a nontraditional, cost-sharing, multi-employer public employee retirement system. Membership in ERS begins on the first day of employment and terminates upon withdrawal of contributions.

(Continued)

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

Notes to Financial Statements, Continued

(7) Employee Benefits, Continued

Members can retire at age 60 and above with 10 or more years of service, at age 55 with 25 or more years of service or at age 50 with 30 or more years of service. The plan also provides death and disability benefits and early retirement options. A member is vested after 5 years, but he must leave his accumulated contributions in the plan in order to be eligible for retirement benefits. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the State of Texas.

The contribution rate for the employees is 6 percent, and the Department matching percent is currently 6 percent, both as adopted by the State of Texas. Part of the Department contribution rate (the normal cost) is to fund the currently accruing monetary credits, with the other part (the prior service contribution rate) calculated as the level percent of payroll needed to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period.

The Revenue Bond Enterprise Fund's total payroll for the years ending August 31, 1997 and 1996 was approximately \$3,200,000 and \$3,000,000, respectively, all of which, except for vacation, was used to compute the Revenue Bond Enterprise Fund's contribution. Both the Revenue Bond Enterprise Fund and the covered employees made required contributions totaling approximately \$195,000 and \$176,000 in 1997 and 1996 by the Revenue Bond Enterprise Fund and approximately \$195,000 and \$176,000 in 1997 and 1996 by the employees, respectively.

The ERS had pension benefit obligations of approximately \$9.6 billion and net assets available to cover the obligation of approximately \$12.3 billion at August 31, 1996, the date of the latest available actuarial information for the ERS. The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date.

(Continued)

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

Notes to Financial Statements, Continued

(7) Employee Benefits, Continued

The measure is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among ERS and among employers. ERS does not make separate measurements of assets and the pension benefit obligation for individual employers.

A complete description of the significant accounting policies, funding status and ten-year historical trends of ERS is available in financial statements available from ERS. The ten-year historical trends provide information about progress made in accumulating sufficient assets to pay benefits when due.

(8) Segment Financial Data

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

<u>Programs</u>	<u>1997</u>				
	<u>Operating Revenues</u>	<u>Depreciation/Amortization</u>	<u>Operating Income (Loss)</u>	<u>Operating Transfers In (Out)</u>	<u>Net Income (Loss)</u>
Single-family	\$ 43,192	241	5,223	(1,437)	7,838
RMRB	8,769	48	544	(83)	329
GNMA	3,618	42	113	(173)	(61)
CHMRB	13,159	34	681	(272)	484
Multifamily	12,279	112	363	(846)	(393)
GNMA/CHMRB	3,253	6	(114)	(208)	(344)
SF CHMRB 1994/1995	5,354	7	(570)	(757)	(1,353)
Commercial Paper	547	7	(47)	38	(9)
Operating	<u>956</u>	<u>190</u>	<u>(4,278)</u>	<u>3,259</u>	<u>(1,019)</u>
Total	\$ <u>91,127</u>	<u>687</u>	<u>1,915</u>	<u>(479)</u>	<u>5,472</u>

(Continued)

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

Notes to Financial Statements, Continued

(8) Segment Financial Data, Continued

<u>Programs</u>	<u>1997</u>				
	<u>Net Working Capital</u>	<u>Total Assets</u>	<u>Fund Equity</u>	<u>Bonds Payable</u>	<u>PP&E Additions</u>
Single-family	\$ 17,159	555,799	39,952	493,584	-
RMRB	1,091	106,001	5,283	98,530	-
GNMA	900	39,831	174	39,050	-
CHMRB	612	172,669	(279)	168,658	-
Multifamily	3,866	201,111	1,891	188,436	-
GNMA/CHMRB	1,170	50,245	226	49,515	-
SF CHMRB 1994/1995	5,119	88,220	(109)	87,000	-
Commercial Paper	20,676	20,885	159	20,555	-
Operating	<u>6,942</u>	<u>9,155</u>	<u>7,908</u>	<u>-</u>	<u>434</u>
Total	\$ <u>57,535</u>	<u>1,243,916</u>	<u>55,205</u>	<u>1,145,328</u>	<u>434</u>

(Continued)

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

Notes to Financial Statements, Continued

(8) Segment Financial Data, Continued

Segment financial data of the Revenue Bond Enterprise Fund's programs at August 31, 1996 and for the year then ended is as follows (amounts in thousands):

<u>Programs</u>	1996				
	<u>Operating Revenues</u>	<u>Depreciation/ Amortization</u>	<u>Operating Income (Loss)</u>	<u>Operating Transfers In (Out)</u>	<u>Net Income (Loss)</u>
Single-family	\$ 41,374	221	4,492	(1,736)	3,518
RMRB	9,707	49	541	(131)	233
GNMA	4,096	52	96	(608)	(511)
CHMRB	13,591	35	372	(93)	247
Multifamily	10,645	158	1,253	(1,384)	219
CMO	576	25	40	(12)	495
GNMA/CHMRB	3,657	6	144	(526)	(438)
SF CHMRB 1994	4,951	5	(402)	(622)	(1,026)
SF CHMRB 1995	550	2	70	562	626
Commercial Paper	369	7	(15)	29	14
Operating	<u>1,225</u>	<u>168</u>	<u>(4,844)</u>	<u>3,670</u>	<u>(1,175)</u>
Total	\$ <u>90,741</u>	<u>728</u>	<u>1,747</u>	<u>(851)</u>	<u>2,202</u>

(Continued)

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

Notes to Financial Statements, Continued

(8) Segment Financial Data, Continued

<u>Programs</u>	1996				
	Net Working Capital	Total Assets	Fund Equity	Bonds Payable	PP&E Additions
Single-family	\$ 52,652	498,325	32,114	448,654	-
RMRB	1,174	115,504	4,953	108,195	-
GNMA	944	44,468	234	43,541	-
CHMRB	937	186,186	(762)	182,634	-
Multifamily	4,172	168,072	2,284	160,237	-
CMO	-	-	-	-	-
GNMA/CHMRB	789	52,785	570	51,930	-
SF CHMRB 1994	869	84,850	509	83,880	-
SF CHMRB 1995	87	7,964	735	7,190	-
Commercial Paper	20,329	20,590	168	20,250	-
Operating	<u>8,739</u>	<u>10,950</u>	<u>8,927</u>	<u>-</u>	<u>281</u>
Total	\$ <u>90,692</u>	<u>1,189,694</u>	<u>49,732</u>	<u>1,106,511</u>	<u>281</u>

(9) Commitments and Contingencies

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

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

Notes to Financial Statements, Continued

(10) Risk Financing and Related Insurance Issues

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

(11) Subsequent Events

On September 17, 1997, the Department issued \$79,500,000 in single-family mortgage revenue bonds made up as follows:

\$ 44,465,000 1997 Series A
\$ 9,510,000 1997 Series B
\$ 25,525,000 1997 Series C (Federally Taxable)

The Series A and C bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured, VA-guaranteed, Rural Development-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the State of Texas. The mortgage certificates will be guaranteed as to timely payment of principal and interest by either GNMA or FNMA. The proceeds of the Series B bonds will be deposited and applied for the primary purpose of refunding and redeeming certain Single Family Mortgage Revenue Tax-Exempt Commercial Paper Notes, Series B outstanding within ninety (90) days after the date of issuance of the Series B bonds.

(12) Related Party Transactions

The Department utilizes the Texas State Affordable Housing Corporation (the Corporation) as a master servicer for various bond programs. The Corporation currently services approximately \$19,400,000 of the Department's outstanding loans.

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

Schedule

Supplemental Schedule - Balance Sheet Information by Program

August 31, 1997

Assets	Single Family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	Total
Cash and temporary investments										
Cash on hand	\$ -	-	-	-	-	-	-	-	200	
Cash in bank	1,642,833	10,350	-	1,249	252	1,081,218	-	-	14,069	2,74
Cash in State Treasury	-	-	-	-	-	-	-	-	597,733	59
Short-term investments	28,349,312	1,681,041	902,329	1,163,754	959,244	3,823,776	5,120,278	20,641,840	6,992,350	69,63
Investments, net	278,218,960	93,983,814	38,387,988	48,352,597	168,802,433	7,390,173	82,105,486	-	-	717,24
Receivables:										
Interest receivable	3,593,652	702,509	272,074	276,787	1,019,891	699,677	475,726	118,406	9,241	7,16
Note receivable - related party	500,000	-	-	-	-	-	-	-	500,000	1,00
Mortgage loans receivable, net	235,987,360	8,004,808	-	-	-	186,141,761	-	-	134,763	430,26
Consumable inventories	-	-	-	-	-	-	-	-	7,735	
Real estate owned, net	1,061,648	-	-	-	-	-	-	-	-	1,06
Fixed assets:										
Furniture and equipment	-	-	-	-	-	-	-	-	1,490,498	1,49
Less accumulated depreciation	-	-	-	-	-	-	-	-	(684,026)	(68
Deferred issuance costs, net	6,155,519	1,615,413	265,346	450,220	1,885,756	1,974,182	518,294	124,919	-	12,98
Due from other funds	-	-	-	-	-	-	-	-	4,597	
Other assets	290,132	3,037	3,272	-	1,666	-	-	-	88,173	38
Total assets	\$ 555,799,416	106,000,972	39,831,009	50,244,607	172,669,242	201,110,787	88,219,784	20,885,165	9,155,333	1,243,91
Liabilities and Fund Equity (Deficit)										
Liabilities:										
Accounts payable	\$ 154,464	9,446	-	2,505	4,117	20,825	3,530	784	682,589	87
Deferred revenues	1,731,248	834,472	333,109	-	2,899,531	-	-	-	-	5,79
Revenue bonds payable	493,583,294	98,530,000	39,050,111	49,515,000	168,658,159	188,436,211	87,000,000	-	-	1,124,77
Commercial paper notes payable	-	-	-	-	-	-	-	20,555,000	-	20,55
Accrued interest payable	16,273,330	1,294,378	274,121	268,973	1,362,892	1,717,782	473,389	83,486	-	21,74
Employees compensable leave	-	-	-	-	-	-	-	-	215,086	21
Other liabilities	4,105,106	50,296	-	231,930	23,157	9,044,823	852,071	86,840	349,502	14,74
Total liabilities	515,847,442	100,718,592	39,657,341	50,018,408	172,947,856	199,219,641	88,328,990	20,726,110	1,247,177	1,188,71
Fund equity (deficit) - retained earnings, restricted	39,951,974	5,282,380	173,668	226,199	(278,614)	1,891,146	(109,206)	159,055	7,908,156	55,20
Total liabilities and fund equity (deficit)	\$ 555,799,416	106,000,972	39,831,009	50,244,607	172,669,242	201,110,787	88,219,784	20,885,165	9,155,333	1,243,91

See accompanying independent auditors' report.

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

Sched

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

For the Year Ended August 31, 1997

	Single Family Program	RMRB Program	GNMA Program	1993 GNMA/CHMRB Program	CHMRB Program	Multifamily Program	1994/1995 CHMRB Program	Commercial Paper Program	Operating Fund	To
Operating revenues:										
Interest and investment income	\$ 41,887,138	8,648,273	3,445,856	3,252,728	13,004,494	11,593,657	5,287,778	547,043	462,596	88,12
Other operating revenues	1,305,762	120,599	172,616	-	154,179	685,200	65,740	-	493,037	2,95
Total operating revenues	43,192,900	8,768,872	3,618,472	3,252,728	13,158,673	12,278,857	5,353,518	547,043	955,633	91,12
Operating expenses:										
Salaries and wages	-	-	-	-	-	-	-	-	2,726,977	2,72
Payroll related costs	-	-	-	-	-	-	-	-	570,544	570
Professional fees and services	14,897	6,000	3,000	11,454	11,934	27,294	16,389	55,605	593,761	74
Travel	-	-	-	-	-	-	-	-	166,014	166
Materials and supplies	-	-	-	-	-	-	-	-	134,206	134
Communication and utilities	-	-	-	-	-	-	-	-	95,973	95
Repairs and maintenance	-	-	-	-	-	-	-	-	122,008	122
Rentals and leases	-	-	-	-	-	-	-	-	307,795	307
Printing and reproduction	-	-	-	-	-	-	-	-	22,741	22
Depreciation and amortization	240,388	47,960	42,411	5,958	33,593	112,374	7,254	6,940	189,864	69
Interest expense	34,518,495	8,080,637	3,446,165	3,317,218	12,402,550	11,568,985	5,855,622	522,597	-	79,7
Other operating expenses	3,195,730	90,847	14,413	32,277	29,555	207,307	44,091	8,832	303,320	3,9
Total other expenses	37,969,510	8,225,444	3,505,989	3,366,907	12,477,632	11,915,960	5,923,356	593,974	5,233,203	89,2
Operating income (loss)	5,223,390	543,428	112,483	(114,179)	681,041	362,897	(569,838)	(46,931)	(4,277,570)	1,9
Gain on sale of investments	5,424,095	-	-	-	-	-	-	-	-	5,4
Gain (loss) on early extinguishment of debt	(1,372,396)	(130,925)	-	(22,081)	74,413	90,331	(27,172)	-	-	(1,3
Operating transfers, net	(1,436,769)	(83,006)	(173,257)	(207,550)	(271,547)	(846,448)	(756,470)	37,726	3,258,748	(4
Net income (loss)	7,838,320	329,497	(60,774)	(343,810)	483,907	(393,220)	(1,353,480)	(9,205)	(1,018,822)	5,4
Fund equity (deficit), beginning of year	32,113,654	4,952,883	234,442	570,009	(762,521)	2,284,366	1,244,274	168,260	8,926,978	49,7
Fund equity (deficit), end of year	\$ 39,951,974	5,282,380	173,668	226,199	(278,614)	1,891,146	(109,206)	159,055	7,908,156	55,2

See accompanying independent auditors' report.

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

Miscellaneous Bond Information

August 31, 1997
(Amounts in Thousands)

Description of Issue	Bonds Issued To Date	Interest	Range of Rates	Scheduled Maturities		First Call Date
				First Year	Last Year	
1985 Single Family Series C	\$ 30,000	5.50%	7.88%	1988	2017	09/01/1996
1986 Single Family Series A	83,425	5.13%	8.25%	1988	2017	03/01/1996
1986 Single Family Series B	90,280	4.50%	7.50%	1988	2017	09/01/1996
1987 Single Family Series B	77,700	5.00%	8.20%	1989	2016	03/01/1998
1991 Single Family Series A	81,605	4.80%	7.15%	1992	2012	09/01/2001
1994 Jr Lien Mtg Rev Bonds Series A	5,000	8.10%	8.10%	2015	2015	09/01/2004
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	36,201	7.00%	7.00%	2015	2015	09/01/2004
1994 Jr Lien Mtg Rev Bonds Series B	55,995	9.50%	9.50%	2016	2016	09/01/2004
1995 Single Family Series A	85,760	4.15%	6.15%	1997	2027	09/01/2005
1995 Single Family Series B	9,605	4.95%	5.40%	2004	2008	09/01/2005
1995 Single Family Series C	71,760	6.44%	7.76%	2006	2017	09/01/2005
1996 Single Family Series A	15,000	4.50%	6.30%	2001	2028	09/01/2006
1996 Single Family Series B	42,140	5.50%	6.00%	2011	2017	09/01/2006
1996 Single Family Series C	2,000	8.30%	8.30%	2015	2017	09/01/2006
1996 Single Family Series D	70,760	5.45%	6.25%	2021	2028	09/01/2006
1996 Single Family Series E	98,730	3.90%	6.00%	1998	2017	09/01/2006
1987 RMRB Family Series A	30,000	6.75%	9.13%	1990	2019	07/01/1999
1987 RMRB Series D	47,000	7.50%	8.40%	1994	2021	07/01/1999
1988 RMRB Series A	40,920	6.50%	7.60%	1990	2018	07/01/2000
1989 RMRB Series A	44,000	6.60%	7.60%	1991	2016	07/01/1999
1989 RMRB Series B	45,000	7.85%	7.85%	2018	2018	07/01/2004
1989 GNMA Series A	72,000	(a)		2019	2019	06/01/1999
1989 GNMA Series B	48,250	(b)		2021	2021	12/01/1999
1990 Coll Home Mtg Rev Bds Series A	46,600	6.30%	7.35%	1993	2011	07/01/2000
1990 Coll Home Mtg Rev Bds Series B	93,445	7.80%	7.80%	2023	2023	07/01/2000
1991 Coll Home Mtg Rev Bds Series A	36,000	5.25%	6.95%	1994	2023	01/01/2002
1992 Coll Home Mtg Rev Bds Series A	29,500	3.48%	10.27%	2023	2024	05/04/1995
1992 Coll Home Mtg Rev Bds Series B	30,000	3.48%	10.27%	2023	2024	05/04/1995
1992 Coll Home Mtg Rev Bds Series C	72,700	3.48%	10.27%	2023	2024	05/04/1995
1993 SF MRB CHMRB Series A	11,695	5.85%	5.85%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series B	15,000	6.62%	6.62%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series C	15,000	6.68%	6.68%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series D	8,000	6.76%	6.76%	2025	2025	11/01/2004
1993 SF MRB CHMRB Series E	8,780	6.85%	6.85%	2025	2025	11/01/2004
1994 SF MRB CHMRB Series A	35,395	6.85%	6.85%	2026	2026	02/22/2005
1994 SF MRB CHMRB Series B	33,385	6.40%	6.40%	2026	2026	04/26/2005
1994 SF MRB CHMRB Series C	15,360	6.25%	6.25%	2026	2026	06/27/2005
1995 SF MRRB CHMRB Series A	5,825	6.26%	6.26%	2015	2015	02/22/2005
1995 SF MRRB CHMRB Series B	2,030	5.70%	5.70%	2010	2010	04/26/2005
TOTAL SINGLE-FAMILY BONDS	1,641,846					
1984 MF Series A&B (Oxford)	34,400	(c)		2006	2006	03/01/1998
1984 MF Private Placement(Summerbend)	10,100	(d)		1985	1999	09/01/1986
1985 MF Series A (Folsom IV)	7,560	(e)		2007	2007	06/01/1991
1987 South Texas Rental Housing	1,400	9.50%	9.50%	1988	2012	02/01/1988
1991 MF Series A&B (Phoenix Mutual)	21,085	6.25%	6.25%	2005	2005	12/01/1995
1993 MF Series A&B (RemHill/HighPt Ref)	26,370	(Weekly rates)		2023	2023	02/01/2000
1993 Res Ren Project Revenue Bonds	16,775	3.30%	5.80%	1994	2024	01/01/2004
1996 MF Series A&B (Brighton's Mark)	9,748	6.13%	6.13%	2026	2026	01/01/2003
1996 MF Series A&B (Las Colinas)	14,870	5.65%	5.65%	2026	2026	01/01/2003
1996 MF Series A&B (Braxton's Mark)	14,274	5.81%	5.81%	2026	2026	01/01/2003
1996 MF Series A-D (DFW Pool)	22,150	6.00%	10.00%	1999	2026	07/01/2006
1996 MF Series A-D (Harbors & Plumtree)	13,050	5.90%	10.00%	1997	2026	07/01/2006
1996 MF Series A&B (NHP Foundation)	27,560	5.50%	6.40%	1997	2027	07/01/2007
TOTAL MULTI-FAMILY BONDS	219,342					
TOTAL BONDS ISSUED	\$ 1,861,188					

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

Miscellaneous Bond Information

August 31, 1997

FOOTNOTES:

- (a) Interest payment is equal to the sum of all interest payments received with respect to the Mortgage Certificates, less the Agency Expense amount; and all earnings resulting from the investment of moneys on deposit in Funds established by the Indenture (not including the Cost of Issuance, Expense and Rebate Funds), less the Rebate Amount.
- (b) Interest payable on the bonds is an amount equal to the sum of all amounts transferred to the Interest Fund pursuant to the Trust Indenture which amount generally represents certain capitalized interest amounts, amounts representing interest on the GNMA Certificates, and certain investment earnings.
- (c) 105% of Floating Interest Index as computed by Kenny Information Systems. May never exceed the lower of the maximum rate of nonusurious interest on securities issued by the Agency as presently or hereafter allowed by law or 17.555% per annum. Optional redemption date - March 1 of the third year following the Conversion Date.
- (d) Variable rate equal to 80% of the trustee bank's prime rate, subject to a maximum (15%) and minimum (8%) yield.
- (e) Interest rate subject to change on December 1993 and on certain dates thereafter. Optional redemption date-June 1 of the third year preceding the Remarketing Date.

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

Changes in Bond Indebtedness

For the Year Ended August 31, 1997

Description of Issue	Bonds Outstanding 9/1/96	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/97
1985 Single Family Series C	\$ 20,080,000	-	160,000	19,920,000	-
1986 Single Family Series A	43,165,000	-	710,000	42,455,000	-
1986 Single Family Series B	66,425,000	-	775,000	65,650,000	-
1987 Single Family Series B	27,000,000	-	655,000	4,090,000	22,255,000
1991 Single Family Series A	43,085,000	-	1,970,000	1,930,000	39,185,000
1994 Jr Lien Mtg Rev Bonds Series A	5,000,000	-	-	-	5,000,000
1994 Jr Lien Mtg Rev Bonds Series A (Cab's)	25,234,738	951,329	-	6,495,017	19,691,050
1994 Jr Lien Mtg Rev Bonds Series B	55,995,000	-	-	16,870,000	39,125,000
1995 Single Family Series A	85,760,000	-	-	140,000	85,620,000
1995 Single Family Series B	9,605,000	-	-	185,000	9,420,000
1995 Single Family Series C	71,055,000	-	1,210,000	10,630,000	59,215,000
1996 Single Family Series A	-	15,000,000	-	2,670,000	12,330,000
1996 Single Family Series B	-	42,140,000	-	-	42,140,000
1996 Single Family Series C	-	2,000,000	-	-	2,000,000
1996 Single Family Series D	-	70,760,000	-	1,370,000	69,390,000
1996 Single Family Series E	-	98,730,000	670,000	2,655,000	95,405,000
1987 RMRB Family Series A	6,385,000	-	200,000	625,000	5,560,000
1987 RMRB Series D	28,175,000	-	350,000	1,995,000	25,830,000
1988 RMRB Series A	35,875,000	-	555,000	150,000	35,170,000
1989 RMRB Series A	18,695,000	-	405,000	2,560,000	15,730,000
1989 RMRB Series B	19,065,000	-	425,000	2,400,000	16,240,000
1989 GNMA Series A	19,613,703	-	1,520,790	-	18,092,913
1989 GNMA Series B	23,926,788	-	2,969,591	-	20,957,197
1990 Coll Home Mtg Rev Bds Series A	3,320,000	-	675,000	145,000	2,500,000
1990 Coll Home Mtg Rev Bds Series B	34,960,000	-	1,450,000	1,675,000	31,835,000
1991 Coll Home Mtg Rev Bds Series A	25,665,000	-	750,000	925,000	23,990,000
1992 Coll Home Mtg Rev Bds Series A	12,900,000	-	8,100,000	-	4,800,000
1992 Coll Home Mtg Rev Bds Series B	30,000,000	-	-	-	30,000,000
1992 Coll Home Mtg Rev Bds Series C	72,700,000	-	-	-	72,700,000
1993 SF MRB CHMRB Series A	10,885,000	-	-	455,000	10,430,000
1993 SF MRB CHMRB Series B	14,205,000	-	-	940,000	13,265,000
1993 SF MRB CHMRB Series C	14,315,000	-	-	535,000	13,780,000
1993 SF MRB CHMRB Series D	6,955,000	-	-	435,000	6,520,000
1993 SF MRB CHMRB Series E	5,570,000	-	-	50,000	5,520,000
1994 SF MRB CHMRB Series A	35,210,000	-	1,075,000	635,000	33,500,000
1994 SF MRB CHMRB Series B	33,310,000	-	50,000	670,000	32,590,000
1994 SF MRB CHMRB Series C	15,360,000	-	30,000	25,000	15,305,000
1995 SF MRB CHMRB Series A	5,405,000	-	545,000	555,000	4,305,000
1995 SF MRB CHMRB Series B	1,785,000	-	40,000	445,000	1,300,000
TOTAL SINGLE FAMILY BONDS	926,685,229	229,581,329	25,290,381	190,280,017	940,696,160
1984 MF Series A&B (Oxford)	34,400,000	-	-	-	34,400,000
1984 MF Private Placement(Summerbend)	8,790,000	-	-	70,000	8,720,000
1985 MF Series A (Folsom IV)	3,400,000	-	-	3,400,000	-
1987 South Texas Rental Housing	1,215,671	-	32,696	-	1,182,975
1991 MF Series A&B (Phoenix Mutual)	8,905,000	-	-	8,905,000	-
1993 MF Series A&B(RemHill/HighPt Ref)	26,370,000	-	-	-	26,370,000
1993 Res Ren Project Revenue Bonds	16,245,000	-	255,000	-	15,990,000
1996 MF Series A&B (Brighton's Mark)	9,748,140	157,387	-	-	9,905,527
1996 MF Series A&B (Las Colinas)	14,869,512	221,604	-	-	15,091,116
1996 MF Series A&B (Braxton's Mark)	14,273,700	219,154	-	-	14,492,854
1996 MF Series A-D (DFW Pool)	22,150,000	-	120,000	-	22,030,000
1996 MF Series A-D (Harbors & Plumtree)	-	13,050,000	75,000	-	12,975,000
1996 MF Series A&B (NHP Foundation)	-	27,560,000	155,000	-	27,405,000
TOTAL MULTI-FAMILY BONDS	160,367,023	41,208,145	637,696	12,375,000	188,562,472
TOTAL BONDS ISSUED	\$ 1,087,052,252	270,789,474	25,928,077	202,655,017	1,129,258,632 (b)

FOOTNOTES:

(a) Bond Accretions

(b) Bonds Outstanding balance at 8/31/97 does not include unamortized premium or discounts.

Bonds Outstanding per schedule	\$ 1,129,258,632
Unamortized Premium:	
Single-family	1,300,260
Single-family-Gain/(Loss) on Refunding	(8,493,016)
CHMRB	2,833,159
Multi-family	(126,260)
Bonds Outstanding per Balance Sheet	\$ 1,124,772,775

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

Debt Service Requirements

August 31, 1997
(Amounts in Thousands)

Description	1998	1999	2000	2001	2002	2003 & Beyond	Total Requirements
1987 Single Family Series B	\$ 2,633	3,102	2,103	2,112	2,121	36,331	48,402
1991 Single Family Series A	4,740	4,749	4,742	4,728	3,374	41,302	63,635
1994 Single Family Series A	405	405	405	405	405	30,158	32,183
1994 Single Family Series B	3,717	3,717	3,717	3,717	3,717	91,161	109,746
1995 Single Family Series A	6,300	6,302	6,305	6,307	6,313	142,794	174,321
1995 Single Family Series B	490	490	490	490	490	11,637	14,087
1995 Single Family Series C	5,109	5,111	5,115	5,115	5,117	96,016	121,583
1996 Single Family Series A	739	739	739	2,844	644	27,295	33,000
1996 Single Family Series B	2,435	2,435	2,435	2,435	2,435	72,425	84,600
1996 Single Family Series C	166	166	166	166	166	4,366	5,196
1996 Single Family Series D	4,207	4,207	4,207	4,207	4,207	173,893	194,928
	7,358	7,929	7,948	7,943	7,952	124,513	163,643
TOTAL SINGLE FAMILY BONDS	38,299	39,352	38,372	40,469	36,941	851,891	1,045,324
1987 Residential Mtg Revenue Bonds, Series A	774	756	741	741	393	8,312	11,717
1987 Residential Mtg Revenue Bonds, Series D	2,165	2,585	2,132	2,132	2,132	59,504	70,650
1988 Residential Mtg Revenue Bonds, Series A	3,104	3,105	3,099	3,129	3,144	61,946	77,527
1989 Residential Mtg Revenue Bonds, Series A	1,358	1,350	1,356	1,139	1,139	29,353	35,695
1989 Residential Mtg Revenue Bonds, Series B	1,275	1,275	1,275	1,275	1,275	36,637	43,012
TOTAL RESIDENTIAL MTG REVENUE BONDS	8,676	9,071	8,603	8,416	8,083	195,752	238,601
1989 GNMA, Series A	2,930	2,703	2,493	2,300	2,122	21,937	34,485
1989 GNMA, Series B	4,194	3,673	3,217	2,818	2,469	16,841	33,212
TOTAL GNMA	7,124	6,376	5,710	5,118	4,591	38,778	67,697
1990 Coll Home Mtg Rev Bonds, Series A	722	732	734	727	-	-	2,915
1990 Coll Home Mtg Rev Bonds, Series B	2,483	2,483	2,483	2,483	2,483	81,498	93,913
1991 Coll Home Mtg Rev Bonds, Series A	1,887	1,896	1,878	1,864	1,850	51,437	60,812
1992 Coll Home Mtg Rev Bonds, Series A	327	327	327	327	327	11,658	13,293
1992 Coll Home Mtg Rev Bonds, Series B	2,042	2,042	2,042	2,042	2,042	72,870	83,080
1992 Coll Home Mtg Rev Bonds, Series C	4,947	4,947	4,947	4,947	4,947	181,543	206,278
TOTAL COLL HOME MTG REV BONDS	12,408	12,427	12,411	12,390	11,649	399,006	460,291
1993 SINGLE FAMILY CHMRB, SERIES A	610	610	610	610	610	25,074	28,124
1993 SINGLE FAMILY CHMRB, SERIES B	878	878	878	878	878	34,341	38,731
1993 SINGLE FAMILY CHMRB, SERIES C	921	921	921	921	921	35,870	40,475
1993 SINGLE FAMILY CHMRB, SERIES D	441	441	441	441	441	17,097	19,302
1993 SINGLE FAMILY CHMRB, SERIES E	378	378	378	378	378	14,595	16,485
TOTAL SINGLE FAMILY CHMRB 1993	3,228	3,228	3,228	3,228	3,228	126,977	143,117
1994 SINGLE FAMILY CHMRB, SERIES A	2,295	2,295	2,295	2,295	2,295	90,868	102,343
1994 SINGLE FAMILY CHMRB, SERIES B	2,086	2,086	2,086	2,086	2,086	84,733	95,163
1994 SINGLE FAMILY CHMRB, SERIES C	957	957	957	957	957	39,217	44,002
TOTAL SINGLE FAMILY CHMRB 1994	5,338	5,338	5,338	5,338	5,338	214,818	241,508
1995 SINGLE FAMILY CHMRB, SERIES A	269	269	269	269	269	8,080	9,425
1995 SINGLE FAMILY CHMRB, SERIES B	74	74	74	74	74	1,967	2,337
TOTAL SINGLE FAMILY CHMRB 1995	343	343	343	343	343	10,047	11,762
1984 MF Series A&B (Oxford)	2,558	2,558	2,558	2,558	2,558	43,350	56,140
1984 MF Private Placement (Summerbead)	905	894	883	930	797	23,073	27,482
1987 MF Series (South Texas Rental Housing)	147	147	146	147	146	1,517	2,250
1993 MF Series A&B /Remung, Hill/HP	942	942	942	942	942	45,685	50,395
1993 MF Series (Res Ren Proj Rev Bonds)	1,163	1,171	1,168	1,174	1,178	25,529	31,383
1996 MF Series A&B (Brighton's Mark)	598	598	598	598	598	24,245	27,235
1996 MF Series A&B (Las Colinas)	840	840	840	840	840	35,255	39,455
1996 MF Series A&B (Brauxton's Mark)	829	829	829	829	829	34,398	38,543
1996 MF Series A-D (Dallas-Ft. Worth Pool)	1,787	1,788	1,789	1,790	1,789	42,842	51,785
1996 MF Series A-D (Harbors & Plumtree)	1,052	1,051	1,054	1,046	1,048	25,228	30,479
1996 MF Series A/B (NHP Foundation)	2,036	2,050	2,069	2,071	2,068	50,644	60,938
TOTAL MULTI-FAMILY BONDS	12,857	12,868	12,876	12,925	12,793	351,766	416,085
TOTAL ALL BONDS	\$ 88,273	89,003	86,881	88,227	82,966	2,189,035	2,624,385

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

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

Schedule 4

Analysis of Funds Available for Debt Service - Revenue Bonds

For the Year Ended August 31, 1997
(Amounts in the Thousands)

Description of Issue	Pledge and Other Sources Related Expenditures for FY 1997						
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses and Expenditures	Net Available for Debt Service
Single Family:							
Series 82A,83A,84 A&B,85A, 85B/C 86A, 86B,87A/B,91A,94A/B,95A/B,95C 96A-C, 96D/E	\$ 24,427	18,059	175,060	217,546	707	3,451	214,802
Residential Mortgage Revenue Bonds:							
Series 87A,87D,88A,89 A/B	964	7,791	7,730	16,485	14	145	16,354
GNMA, Series 1989A & 1989B	54	3,446	-	3,500	119	60	3,559
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	154	13,004	2,745	15,903	-	75	15,828
SF MRB CHMRB Series 1993 A-E	-	3,253	2,415	5,668	-	50	5,618
SF MRB CHMRB Series 1994 A-C	-	5,288	1,330	6,618	65	67	6,616
SF MRB CHMRB Series 1995 A&B	-	-	1,000	1,000	-	-	1,000
TOTAL SINGLE FAMILY	25,599	50,841	190,280	266,720	905	3,848	263,777
Multi Family:							
1982 MF Series A (BMIR)	-	2	-	2	-	3	(1)
1984 MF Series A&B (Oxford)	2,635	3	-	2,638	165	100	2,703
1984 MF Private Placement (Summerbend)	812	1	70	883	31	19	895
1985 MF Series A (Folsom IV)	38	21	3,400	3,459	30	100	3,389
1985 MF Series G (Wildwood)	-	2	-	2	-	16	(14)
1985 MF Series H (Southridge)	-	-	-	-	-	2	(2)
1987 South Texas Rental Housing	114	69	-	183	-	1	182
1991 MF Series A&B (Phoenix Mutual)	95	51	8,905	9,051	33	65	9,019
1993 MF Series I (Colorado Club)	-	1	-	1	-	-	1
1993 MF Series A&B (RemHill/HighPt Ref)	949	3	-	952	92	11	1,033
1993 Res Ren Project Revenue Bonds	907	(1)	-	906	57	-	963
1994 MF Hsng Rev Ref Bonds Series A&B	-	(7)	-	(7)	-	2	(9)
1996 MF Series A/B Brighton's/Las Colinas	1,475	-	-	1,475	81	5	1,551
1996 MF Series A/B (Braxton's Mark)	851	1	-	852	49	4	897
1996 MF Series A-D (Dallas-Ft Worth Pool)	1,419	-	-	1,419	12	19	1,412
1996 MF Series A-D (Harbors & Plumtree)	833	-	-	833	8	-	841
1996 MF Series A/B (NHP Foundation)	1,447	-	-	1,447	-	-	1,447
TOTAL MULTI-FAMILY	11,575	146	12,375	24,096	558	347	24,307
TOTAL \$	37,174	50,987	202,655	290,816	1,463	4,195	288,084

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

Analysis of Funds Available for Debt Service - Revenue Bonds

For the Year Ended August 31, 1997
(Amounts in the Thousands)

Description of Issue	Debt Service		Interest & Sinking Fund		Reserve Fund		
	Principal	Interest	Refunded or Extinguished	Minimum Actual	Minimum Actual	Actual	
Single Family:							
Series 82A, 83A, 84A&B, 85A, 85B/C 86A, 86B, 87A/B, 91A, 94A/B, 95A/B, 95C 96A-C, 96D/E	\$ 6,150	34,518	175,060	-	-	8,511	31,066
Residential Mortgage Revenue Bonds:							
Series 87A, 87D, 88A, 89A/B	1,935	8,081	7,730	-	-	5,419	5,648
GNMA, Series 1989A & 1989B	4,490	3,446	-	-	-	-	-
Collateralized Home Mtg Rev Bonds:							
Series 90A/B, 91A, 92A-C	10,975	12,403	2,745	-	-	-	-
SF MRB CHMRB Series 1993 A-E	-	3,317	2,415	-	-	-	-
SF MRB CHMRB Series 1994 A-C	1,155	5,454	1,330	-	-	-	-
SF MRB CHMRB Series 1995 A&B	585	402	1,000	-	-	-	-
TOTAL SINGLE FAMILY	25,290	67,621	190,280	-	-	13,930	36,714
Multi Family:							
1984 MF Series A&B (Oxford)	-	2,558	-	-	-	-	-
1984 MF Private Placement (Summerbend)	-	786	70	-	-	-	-
1985 MF Series A (Folsom IV)	-	35	3,400	-	-	-	-
1985 MF Series G (Wildwood)	-	-	-	-	-	-	-
1985 MF Series H (Southridge)	-	-	-	-	-	-	-
1987 South Texas Rental Housing	33	114	-	-	-	1,183	1,283
1991 MF Series A&B (Phoenix Mutual)	-	95	8,905	-	-	-	-
1993 MF Series I (Colorado Club)	-	-	-	-	-	-	-
1993 Res Ren Project Revenue Bonds	255	939	-	-	-	-	-
1994 MF Hsng Rev Ref Bonds Series A&B	-	906	-	-	-	-	-
1996 MF Series A/B (Brighton's Las Colinas)	-	-	-	-	-	-	-
1996 MF Series A/B (Braxton's Mark)	-	1,469	-	-	-	-	-
1996 MF Series A/B (Dallas-Ft. Worth Pool)	120	847	-	-	-	-	-
1996 MF Series A-D (Harbors & Plumtree)	75	1,547	-	-	-	-	-
1996 MF Series A/B (NHP Foundation)	155	833	-	-	-	-	-
		1,440	-	-	-	-	-
TOTAL MULTI-FAMILY	638	11,569	12,375	-	-	1,183	1,283
TOTAL \$	25,928	79,190	202,655	-	-	15,113	37,996

APPENDIX D-2

UNAUDITED FINANCIAL STATEMENTS OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS -
REVENUE BOND ENTERPRISE FUND
FOR ELEVEN-MONTH PERIOD ENDED
JULY 31, 1998

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING STATEMENTS OF REVENUES AND EXPENSES
For the Eleven Month Period Ending July 31, 1998
(Unaudited)

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	GNMA Mortgage Revenue Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1993 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds
Interest Revenue:									
Loans	\$ 18,753,640	\$ 893,371	\$	\$	\$ 10,483,116	\$	\$	\$	\$ 12,204
Investments	21,072,851	6,459,536	2,821,703	10,933,569	77,791	3,004,562	5,294,032	591,984	408,649
Real Estate Owned	198,486	13,322							
Total Interest Revenue	40,022,977	7,166,229	2,821,703	10,933,569	10,560,907	3,004,562	5,294,032	591,984	421,053
Interest Expense:									
Interest on Bonds	35,080,554	6,626,925	2,824,647	10,371,762	10,490,068	2,858,946	4,975,298		
Interest on Commercial Paper								598,329	
Net Interest Revenue	4,942,423	539,304	(2,944)	561,807	70,839	147,618	318,734	(6,345)	421,053
Other Revenue:									
Commitment Fees	514,642	93,004	45,679	150,377	86,133				
Other	1,041,105	64,888	97,475		390,449		23,580		773,487
Total Other Revenue	1,555,747	157,892	143,154	150,377	476,582	0	23,580	0	773,487
Other Expenses:									
Amortization and Write-Off of Deferred Issuance Costs	211,136	42,982	35,844	28,645	82,682	5,407	6,385	67,627	
Mortgage Loan Servicing Fees	678,804	27,146							
Trustee Fees	209,785	33,540	13,003	14,519	(17,022)	24,170	26,955	10,437	7,099
Mortgage Pool & Self Insurance	265,609								
Provision for Estimated Losses on Loans	13,836								
Other	133,092	22,270	3,993	104,401	146,472	1,238	567		
General and Administrative				895					4,555,022
Total Other Expenses	1,512,262	125,938	52,840	148,260	212,132	30,815	33,907	78,064	4,562,121
Operating Income (Loss)	4,985,908	571,258	87,370	563,924	335,289	116,801	308,407	(84,409)	(3,367,581)
Gain (Loss) on Early Extinguishment of Debt	(1,018,851)	(147,715)		(32,950)	3,491	(30,367)	(42,904)		
Gain (Loss) on Sale of Investments	2,285,171								
Operating Transfers, net	(3,080,943)	(65,302)	(80,000)	(94,030)	(557,314)	(50,531)	(193,381)	30,924	3,756,370
Net Income (Loss)	\$ 3,171,285	\$ 358,241	\$ 7,370	\$ 436,944	\$ (218,534)	\$ 35,903	\$ 72,122	\$ (53,485)	\$ 388,789
Restricted fund balance, beginning of period	39,951,974	5,282,380	173,669	(278,614)	1,891,146	226,199	(109,206)	159,055	7,908,157
Equity Transfers									
RESTRICTED FUND BALANCE, END OF PERIOD	\$ 43,123,259	\$ 5,640,621	\$ 181,039	\$ 158,330	\$ 1,672,612	\$ 262,102	\$ (37,084)	\$ 105,570	\$ 8,296,946

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
HOUSING FINANCE DIVISION
COMBINING BALANCE SHEETS
at July 31, 1998
(Unaudited)**

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	GNMA Mortgage Revenue Funds	Collateralized Home Mortgage Revenue Funds	Multi-Family Program Funds	Single Family CHMRB Series 1983 Funds	Single Family CHMRB 1994 & 1995 Funds	Commercial Paper Funds	General Funds
ASSETS									
Cash	\$ 58,055	\$ 18,757	\$ 89	\$ 290,420	\$ (770)	\$	\$	\$ 383,234	\$
Cash Equivalents	21,172,395	1,743,238	944,564	1,003,184	4,461,930	1,810,918	1,029,148	24,999,558	6,498,258
Investments, net	198,631,570	4,522,588		9,180,334	41,634,040		488,738		
Mortgage-backed securities, net	220,141,621	77,892,030	33,461,717	148,045,521		44,820,133	78,895,084		
Loans Receivable, net	200,744,811	7,177,485			207,834,531				133,258
Real Estate Owned, net	384,768	127,181							
Notes Receivable									1,000,000
Accrued Interest Receivable	7,932,159	595,930	236,374	914,135	497,657	255,198	458,525	74,518	15,731
Deferred Issuance Costs, net	7,377,950	1,424,716	229,503	1,730,372	1,513,890	414,445	472,006	94,895	
Other Assets	235,347	3,758							932,996
TOTAL ASSETS	\$ 656,876,876	\$ 93,505,879	\$ 34,872,247	\$ 160,853,546	\$ 256,232,468	\$ 48,899,922	\$ 81,341,479	\$ 25,169,072	\$ 8,973,475
LIABILITIES AND FUND BALANCES									
Bonds Payable	\$ 594,003,077	\$ 86,540,000	\$ 34,164,273	\$ 157,298,527	\$ 209,629,139	\$ 48,155,000	\$ 80,090,000	\$	\$
Commercial Paper Notes Payable								24,875,000	
Accrued Interest Payable	15,585,817	567,908	239,508	824,377	1,708,586	250,890	438,492	63,942	
Accounts Payable and Other					731				596,133
Accrued Expenses	58,995	3,328							
Other Liabilities	3,905,528	753,822	287,429	2,772,312	43,221,400	231,830	652,071	124,560	60,398
TOTAL LIABILITIES	613,553,417	87,865,058	34,691,208	160,895,216	254,559,856	48,837,820	81,378,563	25,063,502	676,529
Restricted Fund Balance	43,123,259	5,840,821	181,039	158,330	1,672,612	262,102	(37,084)	105,570	8,296,946
TOTAL LIABILITIES AND FUND BALANCES	\$ 656,676,676	\$ 93,505,879	\$ 34,872,247	\$ 160,853,546	\$ 256,232,468	\$ 48,899,922	\$ 81,341,479	\$ 25,169,072	\$ 8,973,475

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APPENDIX E-1

**FORM OF PROPOSED OPINION OF BOND COUNSEL
FOR SERIES 1998 BONDS**

Vinson & Elkins

ATTORNEYS AT LAW

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ONE AMERICAN CENTER
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AUSTIN, TEXAS 78701-3200

TELEPHONE (512) 495-8400
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WRITER'S TELEPHONE

[FORM OF PROPOSED OPINION OF BOND COUNSEL FOR SERIES 1998 BONDS]

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Residential Mortgage Revenue Bonds, Series 1998A (the "Series 1998A Bonds"), and its Residential Mortgage Revenue Refunding Bonds, Series 1998B (the "Series 1998B Bonds" and, together with the Series 1998A Bonds, the "Bonds"). The initially issued Bonds are dated and bear interest from November 1, 1998. Interest on the Bonds is payable July 1, 1999, and semiannually thereafter on each January 1 and July 1 until maturity or prior redemption. The Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on October 16, 1998 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1987, between the Department and Bank One, Texas, N.A., as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "RMRB Indenture"), an Eighth Supplemental Residential Mortgage Revenue Bond Trust Indenture with respect to the Series 1998A Bonds and a Ninth Supplemental Residential Mortgage Revenue Bond Trust Indenture with respect to the Series 1998B Bonds, both dated as of November 1, 1998, and both between the Department and the Trustee (collectively, the "Supplemental Indentures"). The RMRB Indenture and the Supplemental Indentures are referred to herein collectively as the "Indenture". The Series 1998A Bonds are being issued for the purposes of (i) acquiring Mortgage Loans by purchasing Mortgage Certificates representing participations therein, (ii) making deposits to the Debt Service Reserve Fund and the Mortgage Reserve Fund, and (iii) payment of Costs of Issuance. The Series 1998B Bonds are being issued for the purposes of refunding the Department's Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A, thereby making funds available to acquire Mortgage Loans by purchasing Mortgage Certificates representing participations therein. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

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

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

financial condition or capability of the Department or the disclosure thereof. In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certain proceedings pertaining to the Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Series 1998A Bond No. _____ and Series 1998B Bond No. _____.

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly the Act of June 16, 1991, ch. 762, 1991 Tex. Sess. Law Serv. 2672, Section 2 of which has been codified as Chapter 2306, Texas Government Code, and Article 4413(501), Vernon's Annotated Texas Civil Statutes, as amended by the 73rd and 75th Legislative Sessions (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indentures; to perform its obligations under the Indenture; and to issue and sell the Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

2. The Department has duly adopted the Bond Resolution and has duly authorized, executed and delivered the Supplemental Indentures. The Indenture constitutes a legal, valid and binding obligation of the Department. Pursuant to the Indenture, all of the Department's right, title and interest in and to the Trust Estate, including the Revenues and other amounts to be received by the Department have been validly and effectively assigned and, upon receipt of such Revenues and amounts by the Trustee, pledged as security for the payment of the principal, redemption price, of and interest on the Bonds. We draw your attention to the fact that the Bonds are secured on a parity basis with the Texas Housing Agency's Residential Mortgage Revenue Bonds, Series 1987A; Residential Mortgage Revenue Bonds, Series 1987D; Residential Mortgage Revenue Bonds, Series 1988A; Residential Mortgage Revenue Bonds Series 1989A; and Residential Mortgage Revenue Bonds, Series 1989B, all issued under the RMRB Indenture.

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

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

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

6. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

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

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

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

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

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

Very truly yours,

APPENDIX E-2

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

Vinson & Elkins

ATTORNEYS AT LAW

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WRITER'S TELEPHONE

[FORM OF PROPOSED OPINION OF BOND COUNSEL FOR SERIES 1999A BONDS]

WE HAVE ACTED AS BOND COUNSEL for the Texas Department of Housing and Community Affairs (the "Department") in connection with the issuance of the Department's Residential Mortgage Revenue Refunding Bonds, Series 1999A (the "Bonds"). The initially issued Bonds are dated and bear interest from the date of their delivery. Interest on the Bonds is payable July 1, 1999, and semiannually thereafter on each January 1 and July 1 until maturity or prior redemption. The Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds are being issued in the principal amounts, bear interest at the rates and mature on the dates as provided in the Indenture mentioned below. The Bonds are subject to optional and special redemption prior to maturity on the dates, at the redemption prices and under the circumstances described in the Indenture.

THE BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Governing Board of the Department on October 16, 1998 (the "Bond Resolution"), a Residential Mortgage Revenue Bond Trust Indenture dated as of November 1, 1987, between the Department and Bank One, Texas, N.A., as successor trustee (the "Trustee"), as amended and supplemented (collectively, the "RMRB Indenture"), and a Tenth Supplemental Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1998, between the Department and the Trustee (the "Supplemental Indenture"). The RMRB Indenture and the Supplemental Indenture are referred to herein collectively as the "Indenture". The Bonds are being issued for the purposes of refunding all of the outstanding Texas Housing Agency's Residential Mortgage Revenue Bonds, Series 1987A and Residential Mortgage Revenue Bonds, Series 1987D. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture.

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

THE SCOPE OF OUR ENGAGEMENT AS BOND COUNSEL extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Bonds and the security therefor and with respect to the exclusion from gross income for federal income tax purposes of interest on the Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement). We have not assumed any responsibility with respect to the financial condition or capability of the Department or the disclosure thereof. In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certain proceedings pertaining to the Bonds, including certain certified and original proceedings of the Department and the State of Texas (the "State"), and customary certificates, opinions, affidavits and other documents executed by officers, agents and representatives of the Department, the State, the Trustee and others. We have also examined executed Bond Nos. _____.

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

BASED UPON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The Department is a body politic and corporate and a public and official governmental agency of the State, duly created, organized and existing under the laws of the State, particularly the Act of June 16, 1991, ch. 762, 1991 Tex. Sess. Law Serv. 2672, Section 2 of which has been codified as Chapter 2306, Texas Government Code, and Article 4413(501), Vernon's Annotated Texas Civil Statutes, as amended by the 73rd and 75th Legislative Sessions (together with other laws of the State applicable to the Department, the "Act"), and has full power and authority to adopt the Bond Resolution and to perform its obligations thereunder; to execute and deliver the Supplemental Indenture; to perform its obligations under the Indenture; and to issue and sell the Bonds and to utilize the proceeds therefrom for the purposes set forth in the Bond Resolution and the Indenture.

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

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

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

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

6. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

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

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

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

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

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

Very truly yours,

APPENDIX F-1

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

**UPDATED INFORMATION RELATING TO THIS APPENDIX
WILL BE FILED WITH THE NRMSIRS AND THE SID
ON OR BEFORE THE LAST DAY OF FEBRUARY OF
EACH YEAR, BEGINNING FEBRUARY 1, 1999.**

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

Additional Information Concerning Mortgage Loans And Mortgage Certificates

The following tables summarize certain information regarding the Mortgage Loans and Mortgage Certificates, as of July 31, 1998. This information should not be construed as a representation or opinion of the Department that the information concerning the new Mortgage Loans and Mortgage Certificates will approximate the information shown below.

Series	Original Issue Amount	Bonds Outstanding	Mortgage Rate	Mortgage Loans / Certificates	
				Originated	Outstanding
1987 Series A ⁽¹⁾	\$ 30,000,000	\$ 4,070,000	9.55	\$ 25,038,498	\$ 7,626,549
1987 Series D ⁽¹⁾	47,000,000	23,580,000	8.00/9.25	43,481,976	20,452,510
1988 Series A	40,920,000	34,415,000	6.50/6.69/7.69 8.69/9.25	39,432,829	20,343,479
1989 Series A/B	89,000,000	24,475,000	7.69/8.69	77,819,827	37,603,936
TOTAL	\$ 206,920,000	\$ 86,540,000		\$ 185,773,130	\$ 86,026,474

(1) To be refunded with Proceeds from the Series 1999A Bonds.

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

Loan Type	Number of Prior Mortgage Loans	Outstanding Principal Amount	Percent of Total Mortgage Loans
FHA Mortgage Loans	175	\$ 7,626,549	7.83%
GNMA Mortgage Certificates	2,060	78,399,925	92.17%
Total	2,235	\$ 86,026,474	100.00%

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

Duration of Delinquency	Number of Delinquent Loans	Outstanding Principal Amount	Percent of Total No. of Loans
30 days	13	\$ 601,261	7.42%
60 days	3	148,275	1.71%
90 days +	1	73,087	0.57%
Total	17	\$ 822,623	9.70%

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

Master Servicer—Mortgage Certificate Loans

Servicer	Percent of Total Loans
Mitchell Mortgage Company	100.00%
Total	100.00%

Servicers—Mortgage Loans

<u>Servicers</u>	<u>Percent of Total Loans</u>
Temple-Inland Mortgage Corp.	42.29%
Meritech Mortgage Services, Inc.	28.57%
Chase Manhattan Mortgage Corp.	10.86%
FT Mortgage Company	4.57%
First Nationwide Mortgage	4.57%
Other	9.14%
Total	100.00%

Reserve Fund Balance

Bond Series	Mortgage Reserve		Debt Service Reserve	
	Par Value	Average	Par Value	Average
	Fund Balances	Investment	Fund Balances	Investment
	Actual	Rate ⁽²⁾	Actual	Rate ⁽²⁾
1987A	\$ 133,585	8.000	\$ 642,108	8.504
1988A ⁽³⁾	305,152	6.190	813,739	8.190
1987D ⁽³⁾	306,788	7.500	818,100	7.500
1989 A&B ⁽³⁾	564,059	8.190	1,504,157	8.190
Total	\$ 1,309,584		\$ 3,778,104	

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

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

Self Insurance Fund Balance

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

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

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

APPENDIX F-2

OTHER INDEBTEDNESS OF THE DEPARTMENT

**UPDATED INFORMATION RELATING TO THIS APPENDIX
WILL BE FILED WITH THE NRMSIRS AND THE SID
ON OR BEFORE THE LAST DAY OF FEBRUARY OF
EACH YEAR, BEGINNING FEBRUARY 1, 1999.**

**CERTAIN INFORMATION CONTAINED IN THIS APPENDIX
IS INCLUDED IN INFORMATION WHICH IS ACCESSIBLE
AT THE DEPARTMENT'S WEBSITE AT:**

www.tdhca.state.tx.us

Other Indebtedness of The Department

General. Between 1979, the year of its creation, and the end of August 1991, when it was succeeded by the Texas Department of Housing and Community Affairs (the "Department"), the Texas Housing Agency (the "Agency") issued seven series (two of which have been refunded) of its Residential Mortgage Revenue Bonds, twelve series (all of which have been refunded or defeased) of its Single Family Mortgage Revenue Bonds, one series of its Single Family Mortgage Revenue Refunding Bonds, two series of its Government National Mortgage Association Collateralized Home Mortgage Revenue Bonds, and two series of its Collateralized Home Mortgage Revenue Bonds, all of which were issued to finance or refinance single family mortgage loans. In addition, the Agency issued two series of interim construction multi-family financing notes, twenty-seven series (twenty-four of which have been refunded or defeased) of its Multi-Family Housing Revenue Bonds, four series (all of which have been refunded a second time) of its Multi-Family Housing Revenue Refunding Bonds and one series of its taxable Collateralized Mortgage Obligations, all of which outstanding obligations have, pursuant to the Act, been assumed by the Department. The Department has, since its creation in September 1991 and through July 31, 1998, issued eight series of its Single Family Mortgage Revenue Bonds, six series of its Single Family Mortgage Revenue Refunding Bonds, two series of Junior Lien Single Family Mortgage Revenue Refunding Bonds, eight series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond), two series of Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond), nine series (two of which have been defeased) of its Collateralized Home Mortgage Revenue Bonds, all of which were issued to finance or refinance single-family mortgage loans. In addition, seventeen series of its Multi-Family Mortgage Revenue Bonds and fourteen series (six of which have been defeased) of its Multi-Family Housing Revenue Refunding Bonds were issued. The indebtedness evidenced by such bonds which remain outstanding is payable solely from the sources and assets, if any, securing such indebtedness and is not payable from any other funds of the Department. **The security for the Bonds issued under the Residential Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1987, is separate and distinct from the security for the other indebtedness of the Department.** As of July 31, 1998, the aggregate outstanding principal amount of bond indebtedness of the Department was \$1,212,523,205. On September 10, 1998, the Department issued the 1998 Series A&B Multi-Family Bonds, Greens of Hickory Trail Apartments, for \$13,500,000.

The Residential Mortgage Revenue Bonds. The Department has issued seven series of Residential Mortgage Revenue Bonds (the "RMRBs") pursuant to the Residential Mortgage Revenue Bond Trust Indenture and seven separate Series Supplements (collectively the "RMRB Indenture"), and are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of July 31, 1998, five series were outstanding with an aggregate outstanding principal amount of \$86,540,000 of Residential Mortgage Revenue Bonds. For information concerning the portfolio of mortgage loans acquired with the Residential Mortgage Revenue Bonds, see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue and Refunding Bonds. The Department has issued twenty-seven series of single family mortgage revenue and refunding bonds under a Single Family Mortgage Revenue Bond Trust Indenture, dated as of October 1, 1980, and thirty-one indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of July 31, 1998, fourteen series were outstanding with an aggregate outstanding principal amount totaling \$555,180,000 of the Single Family Mortgage Revenue and Refunding Bonds. For information concerning the portfolio of mortgage loans acquired with the Single Family Mortgage Revenue and Refunding Bonds, see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Junior Lien Single Family Mortgage Revenue Refunding Bonds. The Department has issued two series of its Junior Lien Single Family Mortgage Revenue Refunding Bonds (the "Junior Lien Bonds") pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust

Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, by and between the Department and Bank One, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the Single Family Mortgage Revenue Bonds by the trust estate held under the Single Family Indenture. As of July 31, 1998, two series were outstanding with an aggregate outstanding principal of \$46,047,675 of the Junior Lien Single Family Mortgage Revenue Refunding Bonds. For information concerning the portfolio of mortgage loans acquired with the Junior Lien Single Family Mortgage Revenue Bonds, see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Collateralized Home Mortgage Revenue Bonds. The Department has issued eleven series of Collateralized Home Mortgage Revenue Bonds pursuant to the Collateralized Home Mortgage Revenue Bond Master Indenture and six separate Series Supplements, and are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of July 31, 1998, nine series were outstanding with an aggregate outstanding principal amount of \$154,595,000 of Collateralized Home Mortgage Revenue Bonds. For information concerning the portfolio of mortgage loans acquired with the Collateralized Home Mortgage Revenue Bonds, see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

GNMA Collateralized Home Mortgage Revenue Bonds. The Department has issued two series of GNMA Collateralized Home Mortgage Revenue Bonds, Series 1989A and Series 1989B in aggregate principal amounts of \$72,000,000 and \$48,250,000, respectively (the "GNMA Collateralized Bonds"), pursuant to two separate indentures, which are not on an equal and ratable basis with each other. The GNMA Collateralized Bonds were sold through two separate private placement transactions with FNMA. The proceeds of the Series 1989A GNMA Collateralized Bonds were used by the Department to redeem in whole the Department's previously issued \$25,000,000 Residential Mortgage Revenue Bonds, Series 1987B, and its previously issued \$47,000,000 Residential Mortgage Revenue Bonds, Series 1987C. The proceeds of the Series 1989B GNMA Collateralized Bonds were used to finance mortgage loans through the acquisition of GNMA Certificates and, except for a portion reserved for targeted area loans, such proceeds were reserved to finance the purchase by eligible borrowers of real estate owned by financial institutions in the State of Texas or by the Department. As of July 31, 1998, two series were outstanding with an aggregate outstanding principal amount of \$34,164,273 of GNMA Collateralized Bonds. For information concerning the portfolio of mortgage loans acquired with the GNMA Collateralized Home Mortgage Revenue Bonds, see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued five series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1993 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, dated as of November 1, 1993, amended as of February 1, 1995 by and between the Department and Bank One, Texas, NA. As of July 31, 1998, five series were outstanding with an aggregate outstanding principal amount of \$46,155,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). For information concerning the portfolio of mortgage loans acquired with the Single Family Mortgage Revenue Bonds (CHMRB), see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued three series of its Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1994 under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture dated as of November 1, 1994, supplemented by a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture dated as of

November 1, 1994, as amended as of February 1, 1995, by and between the Department and Bank One, Texas, N.A. As of July 31, 1998, three series were outstanding with an aggregate outstanding principal amount of \$75,790,000 of the Single Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program). For information concerning the portfolio of mortgage loans acquired with the Single Family Mortgage Revenue Bonds (CHMRB), see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program). The Department has issued two series of its Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program) Series 1995A and Series 1995B for the purpose of refunding certain notes which previously refunded certain Bonds outstanding, under a GNMA/FNMA Collateralized Home Mortgage Revenue Bond Master Trust Indenture and a First Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture and Second Supplemental GNMA/FNMA Collateralized Home Mortgage Revenue Bond Trust Indenture, each dated as of November 1, 1994, each amended as of February 1, 1995, and each by and between the Department and Bank One, Texas, NA, as Trustee. As of July 31, 1998, two series were outstanding with an aggregate outstanding principal amount of \$4,300,000 of the Single Family Mortgage Revenue Refunding Bonds (Collateralized Home Mortgage Revenue Bond Program). For information concerning the portfolio of mortgage loans acquired with the Single Family Mortgage Revenue Refunding Bonds (CHMRB), see "APPENDIX F-1 -- ADDITIONAL INFORMATION CONCERNING MORTGAGE LOANS AND MORTGAGE CERTIFICATES."

Multi-Family Housing Revenue and Refunding Bonds. The Agency and the Department have issued sixty-two multi-family housing revenue and refunding bonds pursuant to separate trust indentures and which are secured by individual trust estates separate and distinct from each other. As of July 31, 1998, twenty-eight series were outstanding with an aggregate outstanding principal amount of \$209,751,257 of Multi-Family Housing Revenue and Refunding Bonds. On September 10, 1998, the Department issued the 1998 Series A&B, Greens of Hickory Trail Apartments for \$13,500,000.

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

APPENDIX G

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

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

Area	50% of AMFI	60% of AMFI (^)	80% of AMFI (^)	100% of AMFI*	115% of AMFI**	120% of AMFI***	140% of AMFI***
Austin-San Marcos Metro (1)	\$25,400	\$30,480	\$40,640	\$50,800	\$58,420	\$60,960	\$71,120
Brazoria Metro (2)	\$25,800	\$30,960	\$41,280	\$51,600	\$59,340	\$61,920	\$72,240
Dallas Metro (3)	\$27,200	\$32,640	\$43,520	\$54,400	\$62,560	\$65,280	\$76,160
Fort Worth - Arlington Metro (4)	\$26,000	\$31,200	\$41,600	\$52,000	\$59,800	\$62,400	\$72,800
Galveston - Texas City Metro (5)	\$24,550	\$29,460	\$39,280	\$49,100	\$59,465	\$58,920	\$68,740
Houston Metro (6)	\$25,200	\$30,240	\$40,320	\$50,400	\$57,960	\$60,480	\$70,560
Balance of State	\$21,450	\$25,740	\$34,320	\$42,900	\$49,335	\$51,480	\$60,060

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

(^) For use in monitoring compliance with Chapter 2306, Texas Government Code, with respect to loans made to families of low income (80% of AMFI) and families of very-low income (60% of AMFI).

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

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

Updated: January 7, 1998

AVERAGE AREA PURCHASE PRICES

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

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

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

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

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



