

In the opinion of Quint & Thimmig, LLP, Bond Counsel, prior to any Reset Adjustment Date or Fixed Rate Adjustment Date (as such terms are defined in the Indenture referenced below), and subject to compliance by the Issuer and the Borrower with certain covenants, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the facilities financed by the Bonds or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”)), (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, and (iii) is not taken into account in computing adjusted current earnings, which is an adjustment in determining the federal alternative minimum tax for certain corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” herein.

\$13,600,000

**CITY OF SAN JOSE, CALIFORNIA
VARIABLE RATE DEMAND MULTIFAMILY HOUSING REVENUE BONDS
(BROOKWOOD TERRACE FAMILY APARTMENTS),
SERIES 2009B**

CUSIP: _____

Dated: Delivery Date**Price: 100%****Due: June 1, 2047**

The City of San José, California (the “Issuer”) has agreed to issue the bonds captioned above (the “Bonds”). The Bonds will bear interest at a Variable Rate to be determined on a weekly basis until adjusted to a Reset Rate or converted to a Fixed Rate, all as described herein. While the Bonds bear interest at the Variable Rate, interest on the Bonds will be payable on the first business day of each month, commencing December 1, 2009 (each an “Interest Payment Date”). The Bonds will be fully registered bonds without coupons, in the minimum denomination of \$100,000 and any integral multiple of \$5,000 in excess thereof during any Variable Period. The Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). The principal of and interest on the Bonds are payable by the Trustee for the Bonds by wire transfer directly to DTC, which will in turn remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” herein.

The Bonds will be issued and secured pursuant to a Trust Indenture, dated as of November 1, 2009 (the “Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Simultaneously with the issuance of the Bonds, the Issuer will enter into a Financing Agreement, dated as of the date of the Indenture (the “Financing Agreement”), with the Trustee and Brookwood Terrace Family Apartments, L.P., a California limited partnership (the “Borrower”), and make a mortgage loan (the “Bond Mortgage Loan”) to the Borrower for the purpose of financing the development of an 84-unit multifamily rental housing development located in the City of San José, California to be known as Brookwood Family Terrace Apartments, as further described herein (the “Project”).

During the construction phase of the Project, payments of principal and Purchase Price of and interest on the Bonds will be secured by an irrevocable, direct pay Letter of Credit (the “Construction Phase Credit Facility” or the “Letter of Credit”) issued by JPMorgan Chase Bank, N.A. (the “Construction Phase Credit Facility Provider” or the “Bank”).

JPMORGAN CHASE BANK, N.A.

Pursuant to a Forward Commitment (the “Forward Commitment”), upon completion of the construction phase of the Project and satisfaction of certain other conditions described herein (the “Conversion”), the Federal Home Loan Mortgage Corporation, a shareholder-owned government-sponsored enterprise organized and existing under the laws of the United States (“Freddie Mac”), has agreed to provide credit enhancement for payments of principal and interest under the Bond Mortgage Loan in an amount equal to principal and interest on the Bonds and payments of the Purchase Price of the Bonds through the issuance of a Credit Enhancement Agreement (the “Credit Enhancement Agreement”) between the Trustee and Freddie Mac.

FREDDIE MAC

The Letter of Credit will expire on November 1, 2011 (with one option to extend for 6 months) or earlier in certain events, including the substitution of an Alternate Credit Facility under the Indenture or the effective date of the Credit Enhancement Agreement. Assuming Conversion occurs, the Credit Enhancement Agreement will terminate on June 6, 2047 or upon the earlier redemption (or purchase in lieu thereof) of the Bonds or upon substitution of an Alternate Credit Facility under the Indenture. There will be no mandatory tender or purchase of Bonds in connection with the Conversion from the Letter of Credit to the Credit Enhancement Agreement as security for the Bonds.

THE INDENTURE REQUIRES THAT THE TRUSTEE PROVIDE NOTICE OF CONVERSION TO THE BONDHOLDERS NOT LESS THAN 12 BUSINESS DAYS PRIOR TO THE CONVERSION DATE, BUT CONVERSION DOES NOT REQUIRE THE CONSENT OF THE BONDHOLDERS AND WILL NOT CAUSE A MANDATORY TENDER OF THE BONDS ON THE CONVERSION DATE. IN LIGHT OF THE FOREGOING, PROSPECTIVE BONDHOLDERS SHOULD ANALYZE THE CREDIT AND LIQUIDITY QUALIFICATIONS OF BOTH THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER AND FREDDIE MAC IN MAKING ANY INVESTMENT DECISION REGARDING THE BONDS.

FREDDIE MAC WILL HAVE NO OBLIGATION TO PROVIDE THE CREDIT ENHANCEMENT AGREEMENT AND WILL HAVE NO OBLIGATION WITH RESPECT TO THE BONDS OR THE BOND MORTGAGE LOAN, IF, FOR ANY REASON, CONVERSION DOES NOT OCCUR.

The Bonds will be subject to mandatory purchase by the Trustee on any date on which an Alternate Credit Facility is to be exchanged for the Credit Facility then in effect or on any date upon which the interest rate on the Bonds is converted to a Reset Rate or the Fixed Rate. The Bonds will be subject to redemption prior to their stated maturity date at the price, on the terms and upon the occurrence of the events described herein.

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES OF AMERICA. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED, PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT, TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC. UNTIL DELIVERY OF THE CREDIT ENHANCEMENT AGREEMENT FOLLOWING SATISFACTION OR WAIVER OF THOSE CONDITIONS SET FORTH IN THE FORWARD COMMITMENT, FREDDIE MAC WILL HAVE NO OBLIGATIONS WITH RESPECT TO THE BONDS. NO ASSURANCES CAN BE GIVEN THAT THE CREDIT ENHANCEMENT AGREEMENT WILL BE DELIVERED.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY OUT OF THE REVENUES, RECEIPTS, AND OTHER MONEYS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. NEITHER THE FAITH AND CREDIT OF THE STATE, THE ISSUER NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Purchase of the Bonds is suitable only for sophisticated investors able to evaluate the credit of the Construction Phase Credit Facility Provider and Freddie Mac. See “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER,” “FREDDIE MAC” and “CERTAIN BONDHOLDERS' RISKS” herein.

THIS OFFICIAL STATEMENT DESCRIBES THE BONDS ONLY DURING THE INITIAL VARIABLE PERIOD FOR THE BONDS WHILE THE BONDS ARE SECURED BY THE LETTER OF CREDIT OR THE CREDIT ENHANCEMENT AGREEMENT DESCRIBED HEREIN. UNLESS SUPPLEMENTED OR RESTATED, THIS OFFICIAL STATEMENT SHOULD NOT BE RELIED UPON AFTER THE DATE ON WHICH THE INTEREST RATE ON THE BONDS IS ADJUSTED TO A RESET RATE OR TO THE FIXED RATE OR THE BONDS ARE SECURED BY AN ALTERNATE CREDIT FACILITY.

The Bonds are offered when, as and if issued and received by RBC Capital Markets Corporation (the “Underwriter”), subject to the approving opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel to the Issuer. Certain legal matters will be passed upon for Freddie Mac by Katten Muchin Rosenman LLP, Washington, D.C., for the Borrower by Cox, Castle & Nicholson, LLP, San Francisco, California, and for the Underwriter by Chapman and Cutler LLP, San Francisco, California. It is expected that the Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about November 19, 2009.

Dated: November ____, 2009



No broker, dealer, salesman or other person has been authorized by the Issuer, the Borrower, or RBC Capital Markets Corporation (the “*Underwriter*”) to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Borrower or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information in this Official Statement has been obtained from the Issuer, the Borrower, the Construction Phase Credit Facility Provider, Freddie Mac (to the limited extent noted below) and DTC and other sources that are believed to be reliable but is not guaranteed as to accuracy or completeness by the Issuer, the Construction Phase Credit Facility Provider (except with respect to the description under the caption “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER”) or Freddie Mac (except with respect to the description under the caption “FREDDIE MAC”), and is not to be construed as a representation of the Issuer (except with respect to the description under the captions “THE ISSUER” and “LITIGATION—The Issuer”) or the Underwriter. In particular, the Issuer has not provided or approved any information in this Official Statement except with respect to the information under the captions “THE ISSUER” and “LITIGATION—The Issuer” and takes no responsibility for any other information contained in this Official Statement.

The Construction Phase Credit Facility Provider has not provided or approved any information in this Official Statement, except with respect to the description under the caption “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER” and takes no responsibility for any other information contained in this Official Statement. The Construction Phase Credit Facility Provider makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility or performance of the Project or compliance with any securities, tax or other laws or regulations. The role of the Construction Phase Credit Facility Provider is limited to issuing the Letter of Credit described herein.

Freddie Mac has not provided or approved any information in this Official Statement, except with respect to the description under the caption “FREDDIE MAC,” and takes no responsibility for any other information contained in this Official Statement. Freddie Mac makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility or performance of the Project, or compliance with any securities, tax or other laws or regulations. Freddie Mac’s role is limited to entering into the Credit Enhancement Agreement described herein but only if the Conditions to Conversion are satisfied. The Servicer makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility or performance of the Project, or compliance with any securities, tax or other laws or regulations.

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein since the date hereof.

While the City of San José, California maintains an internet website for various purposes, none of the information on such website is incorporated by reference in this Official Statement or is intended to assist investors in making an investment decision or to provide any continuing information with respect to the Bonds.

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

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES AGENCY OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

TABLE OF CONTENTS

SECTION	HEADING	PAGE
INTRODUCTION		1
THE ISSUER		6
THE BONDS		6
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS		21
THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER		23
THE LETTER OF CREDIT		24
THE CREDIT ENHANCEMENT AGREEMENT		26
FREDDIE MAC		29
THE PROJECT AND THE PRIVATE PARTICIPANTS		31
PLAN OF FINANCING		35
THE SERVICER		35
THE TRUSTEE		36
CERTAIN BONDHOLDERS’ RISKS		37
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE		41
SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT		68
SUMMARY OF CERTAIN PROVISIONS OF THE CONSTRUCTION PHASE FINANCING AGREEMENT		77
SUMMARY OF CERTAIN PROVISIONS OF THE CONSTRUCTION PHASE CREDIT REIMBURSEMENT AGREEMENT		80
SUMMARY OF CERTAIN PROVISIONS OF THE INTERCREDITOR AGREEMENT		90
SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT		94

NO CONTINUING DISCLOSURE	109
TAX MATTERS	109
UNDERWRITING	110
RATINGS	111
CERTAIN LEGAL MATTERS	111
LITIGATION	111
CONFLICTS OF INTEREST	112
ENFORCEABILITY OF REMEDIES	113
MISCELLANEOUS	113
APPENDIX A — DEFINITIONS OF CERTAIN TERMS	
APPENDIX B — FORM OF CREDIT ENHANCEMENT AGREEMENT	
APPENDIX C — FORM OF BOND COUNSEL OPINION	
APPENDIX D — FORM OF LETTER OF CREDIT	

OFFICIAL STATEMENT

\$13,600,000

CITY OF SAN JOSE, CALIFORNIA

**VARIABLE RATE DEMAND MULTIFAMILY HOUSING REVENUE BONDS
(BROOKWOOD TERRACE FAMILY APARTMENTS),
SERIES 2009B**

INTRODUCTION

The following introductory statement is subject in all respects to more complete information contained elsewhere in this Official Statement. The order and placement of materials in this Official Statement, which includes the cover page and appendices hereto, are not to be deemed to be a determination of relevance, materiality or relative importance, and this Official Statement, including the cover page and appendices hereto, must be considered in its entirety by those considering an investment in the Bonds. Certain capitalized terms used in this Official Statement are defined herein and in the appendices hereto. All capitalized terms used in this Official Statement that are not otherwise defined herein shall have the meanings ascribed to them in the Indenture, the Financing Agreement, the Regulatory Agreement, the Construction Phase Credit Reimbursement Agreement, the Freddie Mac Reimbursement Agreement, the Bond Mortgage Note and the Credit Enhancement Agreement, as applicable (as each such term is hereinafter defined).

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide information in connection with the issuance and sale by the City of San José, California (the “*Issuer*”) of the above-captioned bonds (the “*Bonds*”). The Bonds are being issued in accordance with the Act and pursuant to a Trust Indenture, dated as of November 1, 2009 (the “*Indenture*”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “*Trustee*”). There will be executed and delivered a Financing Agreement, dated as of the date of the Indenture (the “*Financing Agreement*”), by and among the Issuer, Brookwood Terrace Family Apartments, L.P., a California limited partnership (the “*Borrower*”) and the Trustee, pursuant to which a mortgage loan (the “*Bond Mortgage Loan*”) will be made by the Issuer to the Borrower to finance the development of an 84-unit multifamily rental housing development located in the City of San José, California, to be known as Brookwood Terrace Family Apartments (the “*Project*”). See “THE PROJECT AND THE PRIVATE PARTICIPANTS” herein. The Issuer will assign all of its right, title and interest in and to the Financing Agreement (except the Unassigned Rights) to the Trustee for the benefit of the registered owners of the Bonds.

During the Construction Phase of the Project, payments of principal and Purchase Price of and interest on the Bonds will be secured by an irrevocable, direct-pay letter of credit (the “*Letter of Credit*”) issued by JPMorgan Chase Bank, N.A. (the “*Construction Phase Credit Facility Provider*” or the “*Bank*”). Pursuant to a Forward Commitment, upon completion of the Construction Phase of the Project and satisfaction of certain other conditions described herein (the “*Conversion*”), the Federal Home Loan Mortgage Corporation, a shareholder-owned

20091110_02a3_con6
Council Agenda: 11-10-09
Item No.: 2.a.3_con6

DRAFT--Contact the Office of the City Clerk at (408)535-1260 or CityClerk@sanjoseca.gov for final document.

government-sponsored enterprise organized and existing under the laws of the United States (“*Freddie Mac*”), has agreed to provide credit enhancement for payments of principal and interest under the Bond Mortgage Loan and payments of the Purchase Price of the Bonds through the issuance of a direct-pay Credit Enhancement Agreement (the “*Credit Enhancement Agreement*” or “*Credit Facility*”) between Freddie Mac and the Trustee. The Credit Enhancement Agreement, the Letter of Credit and any Alternate Credit Facility provided under the Indenture, are referred to herein as the “Credit Facility.” If not extended pursuant to its terms, the Letter of Credit will expire on November 1, 2011 (with an option to extend for 6 months) or earlier in certain events, including the substitution of an Alternate Credit Facility under the Indenture. If Conversion does not occur, the Bonds will continue to be enhanced by the Letter of Credit in accordance with its terms. If the Letter of Credit expires and is not extended or an Alternate Credit Facility is not delivered as provided in the Indenture, the Bonds are subject to mandatory redemption. See “THE BONDS—Mandatory Redemption.” There is no assurance that Conversion will occur. If Conversion occurs and the Credit Enhancement Agreement is delivered, it will terminate on June 6, 2047 or upon the earlier redemption of the Bonds (or purchase in lieu thereof) or upon substitution of an Alternate Credit Facility under the Indenture. See Appendix B, “FORM OF CREDIT ENHANCEMENT AGREEMENT.”

The Bonds are secured by the Indenture between the Issuer and the Trustee, which creates a security interest in the principal and interest paid on the Bond Mortgage Loan pursuant to the Financing Agreement for the benefit of the holders and owners of the Bonds, and by a first lien priority Bond Mortgage, which creates a security interest in the Project, subject to permitted encumbrances, as provided therein. Payments of principal and Purchase Price of and interest on the Bonds will be made by the Trustee during the Construction Phase from draws under the Letter of Credit. Following the Conversion Date, the Trustee will make payments of principal of and interest on the Bonds from draws against the Credit Enhancement Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

On the Delivery Date, the Issuer, the Trustee, the Construction Phase Credit Facility Provider and Freddie Mac will enter into an Intercreditor Agreement, dated as of November 1, 2009 (the “*Intercreditor Agreement*”), pursuant to which the rights of the Issuer, the Trustee, the Construction Phase Credit Facility Provider and Freddie Mac to enforce remedies under the Bond Mortgage and the Reimbursement Mortgage, respectively, are set forth among the parties therein. None of the Issuer, the Trustee or the owners of the Bonds will have the right to exercise certain remedies (without the prior consent or direction of the Construction Phase Credit Facility or Freddie Mac, as appropriate) under the Bond Mortgage during any period the Construction Phase Credit Facility or the Credit Enhancement Agreement, as applicable, secures the Bonds and the Construction Phase Credit Facility Provider or Freddie Mac, as applicable, continues to honor its obligations thereunder. See “SUMMARY OF THE INTERCREDITOR AGREEMENT” herein.

Pursuant to the Forward Commitment, Freddie Mac’s obligation to issue the Credit Enhancement Agreement is subject to satisfaction of the Conditions to Conversion set forth in the Construction Phase Financing Agreement, dated as of November 1, 2009 (the “*Construction*

Phase Financing Agreement”), among Freddie Mac, Citibank, N.A., as servicer (following Conversion, the “*Servicer*”) and the Construction Phase Credit Facility Provider on or prior to December 1, 2011, as such date may be extended from time to time in accordance with the Construction Phase Financing Agreement (the “*Forward Commitment Maturity Date*”). If the Conditions to Conversion are satisfied on or prior to the Forward Commitment Maturity Date (or, to the extent such conditions will not be satisfied, are waived by Freddie Mac) the Project will convert from the Construction Phase to the Permanent Phase (the “*Conversion*”). The Conditions to Conversion include, but are not limited to, (a) completion of the construction for the Project substantially in compliance with the approved scope of work and the achievement of certain specified levels of occupancy from the leasing units in the Project; (b) the Servicer has issued the Conversion Notice; (c) the amount of the Bond Mortgage Loan that shall be outstanding on the Conversion Date (the “*Actual Bond Mortgage Loan Amount*”), as computed in accordance with the terms of the Forward Commitment, must satisfy the requirements of the Forward Commitment; (d) the Borrower provides assurance acceptable to the Servicer that any gap or bridge financing provided to the Borrower has been or will be, as of the Conversion Date, paid in full and all liens imposed on the Borrower in connection with such financing have been or will be released as of the Conversion Date, including, but not limited to, the release from record of all related liens on the Project; (e) the Borrower provides assurance acceptable to Freddie Mac that all (i) equity contributions to be made to the Borrower after the Closing Date and on or before the Conversion Date, (ii) cash required to be invested in the Project on or before the Conversion Date and (iii) any approved subordinate financing, have been or will be received by the Borrower and have been properly invested in, or otherwise applied to, the Project; (f) no event has occurred and is continuing and no event will result from Conversion to the Permanent Phase, which event is, or would constitute, an Event of Default under any Credit Facility Document to be in effect from and after the Conversion Date or a default under any approved subordinate financing in each case but for the requirement that notice be given or time elapse or both; and (g) all conditions to conversion set forth in the Forward Commitment have been satisfied. No assurance can be given that all of the Conditions to Conversion will be satisfied on or prior to the Forward Commitment Maturity Date. See “SUMMARY OF CERTAIN PROVISIONS OF THE CONSTRUCTION PHASE FINANCING AGREEMENT” herein.

Upon Conversion, the Letter of Credit will terminate and the Credit Enhancement Agreement will secure payments of principal of and interest on the Bond Mortgage Loan and payments of the Purchase Price on the Bonds. If the Conditions to Conversion are not satisfied prior to the Forward Commitment Maturity Date (or, to the extent not satisfied, are not waived by Freddie Mac), the Conversion will not occur and Freddie Mac will not deliver its Credit Enhancement Agreement. If Conversion does not occur, payment of the Bonds will continue to be secured by the Letter of Credit in accordance with its terms. The Bonds are not subject to mandatory tender if Conversion does not occur. However, the Bonds are subject to redemption upon expiration of the Letter of Credit. See “THE BONDS—Mandatory Redemption.” In the event of any such redemption, the Borrower may cause the Bonds to be purchased in lieu of redemption. See “THE BONDS—Purchase of Bonds in Whole in Lieu of Redemption.”

From and after the Conversion, the Borrower is required to make its Bond Mortgage Loan payments to the Servicer. From amounts received from the Borrower, the Servicer is required to (i) reimburse Freddie Mac for amounts paid by Freddie Mac under the Credit Enhancement Agreement and to remit to Freddie Mac the Credit Enhancement Fee, (ii) remit to the Trustee amounts for deposit to (A) the Principal Reserve Fund and (B) the Administration Fund for certain fees payable to the Trustee, the Issuer, the Remarketing Agent, the Tender Agent and the Rebate Analyst and (iii) retain the Servicer's Servicing Fee.

As a Condition to Conversion, the Borrower is required to prepay the Bond Mortgage Loan in the amount necessary to reduce the Bond Mortgage Loan to \$_____ (the "*Maximum Bond Mortgage Loan Amount*"). In addition, if the principal amount of the Actual Bond Mortgage Loan Amount, as finally determined in accordance with the Construction Phase Financing Agreement and the Forward Commitment, is less than the Maximum Bond Mortgage Loan Amount, the principal amount of the Bonds must, as an additional Condition to Conversion, be reduced by the Borrower's prepayment of the Bond Mortgage Loan in an amount equal to the difference between the Maximum Bond Mortgage Loan Amount and the Actual Mortgage Loan Amount. Upon either such prepayment, a corresponding portion of the principal of Bonds will be subject to mandatory redemption. Any such mandatory redemption will be at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date. If such prepayment in part is required as a Condition to Conversion and is not made, Conversion will not occur. See also "THE BONDS — Mandatory Redemption."

The Project is required to be rented at certain affordable rents and occupied by families whose incomes satisfy certain provisions of the Act and the Internal Revenue Code of 1986, as amended (the "*Code*"), and the applicable income tax regulations issued under the Code as set forth in a Regulatory Agreement and Declaration of Restrictive Covenants, dated as of the date of the Indenture (the "*Regulatory Agreement*"), among the Borrower, the Issuer and the Trustee. See "THE PROJECT AND THE PRIVATE PARTICIPANTS" and "SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT" herein. The Project is also required under certain other agreements to be rented at certain affordable rents and occupied by families whose incomes satisfy certain limits as described under the headings "THE PROJECT AND THE PRIVATE PARTICIPANTS" and "SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT" herein.

RBC Capital Markets Corporation has been appointed to serve as the initial remarketing agent (the "*Remarketing Agent*") for the Bonds under the terms of a Remarketing Agreement, dated as of the date of the Indenture (the "*Remarketing Agreement*"), by and between the Remarketing Agent and the Borrower. The Trustee, in its capacity as tender agent (the "*Tender Agent*"), will perform certain services in connection with the purchase of tendered Bonds.

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A

SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES OF AMERICA. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED, PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT, TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY OUT OF THE REVENUES, RECEIPTS, AND OTHER MONEYS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. NEITHER THE FAITH AND CREDIT OF THE STATE, THE ISSUER NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR OF INTEREST ON THE BONDS.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds, or for any claim based thereon or upon any obligation, covenant or agreement contained therein or in the Indenture or any other document related to the Bonds, against any past, present or future officer, employee or agent of the Issuer, under any rule of law or equity or statutory or constitutional provision, or by the enforcement of any assessment or penalty or otherwise.

Purchase of the Bonds is suitable only for sophisticated investors able to evaluate the credit of the Construction Phase Credit Facility Provider and Freddie Mac. See “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER,” “FREDDIE MAC” and “CERTAIN BONDHOLDERS’ RISKS” herein.

Brief descriptions of the Issuer, the Bonds, the security for the Bonds, the Borrower, the Project, the Indenture, the Financing Agreement, the Regulatory Agreement, the Credit Enhancement Agreement, the Freddie Mac Reimbursement Agreement, the Construction Phase Credit Reimbursement Agreement, the Bond Mortgage Loan, the Intercreditor Agreement and the Construction Phase Financing Agreement are included in this Official Statement. All references herein to the Indenture, the Financing Agreement, the Regulatory Agreement, the Credit Enhancement Agreement, the Freddie Mac Reimbursement Agreement, Construction Phase Credit Reimbursement Agreement, the Bond Mortgage Loan, the Intercreditor Agreement, the Construction Phase Financing Agreement and other documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available for inspection at the offices of the Trustee, Wells Fargo Bank, National Association, 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017.

THE ISSUER

The Issuer is a municipal corporation and charter city organized and existing under its Charter and the laws of the State of California. The Issuer is authorized by the Act to issue the Bonds and to make the Bond Mortgage Loan. On November 10, 2009, the City Council of the Issuer adopted a resolution authorizing the issuance of the Bonds, and approving and authorizing the execution by the Issuer of the Indenture, the Financing Agreement, the Regulatory Agreement and the Intercreditor Agreement.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY OUT OF THE REVENUES, RECEIPTS, AND OTHER MONEYS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. NEITHER THE FAITH AND CREDIT OF THE STATE, THE ISSUER NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR OF INTEREST ON THE BONDS.

THE ISSUER HAS PROVIDED THE INFORMATION IN THIS SECTION AND UNDER THE HEADING "LITIGATION—THE ISSUER," AND THE ISSUER IS NOT RESPONSIBLE FOR ANY OF THE OTHER INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT.

THE BONDS

GENERAL

The Bonds are issued in fully registered form and are registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("*DTC*"). *DTC* acts as securities depository for the Bonds. Individual purchases are made in book-entry form. Purchasers will not receive certificates representing their interest in the Bonds purchased. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF *DTC*, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS MEAN CEDE & CO. AND NOT THE BENEFICIAL OWNERS OF THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by the Trustee by wire transfer of New York clearing house or equivalent next day funds, to Cede & Co., as nominee for *DTC*. *DTC* will, in turn, remit such amounts to any broker dealer, bank or other financial institution for which *DTC* holds Bonds from time to time as securities depository ("*DTC Participants*") for subsequent disbursement to the beneficial owners. See "THE BONDS—Book-Entry Only System" herein.

The Bonds will be issued in the minimum denomination of \$100,000 and any integral multiple of \$5,000 in excess thereof. The Bonds issued on the Delivery Date shall be dated the

Delivery Date. Bonds issued after the Delivery Date shall be dated the date they are authenticated by the Trustee. The Bonds shall bear interest from the later of the Delivery Date or the most recent Interest Payment Date to which interest has been paid or provided for and shall be payable on each Interest Payment Date. The Bonds will mature, subject to redemption prior to maturity, on the date set forth on the front cover page of this Official Statement. Commencing on the Delivery Date, the Bonds will bear interest at a Variable Rate of interest until the first Reset Adjustment Date or Fixed Rate Adjustment Date, if any. Interest on the Bonds will be payable on each Interest Payment Date.

Interest shall be payable to the Person in whose name any Bond is registered on the Record Date with respect to an Interest Payment Date (unless such Bond has been called for redemption on a redemption date which is prior to such Interest Payment Date); provided, however, that if and to the extent the Issuer shall default in the payment of the interest due on any Interest Payment Date, such defaulted interest shall be paid as described in the next paragraph.

Any interest on any Bond that is due and payable, but is not punctually paid or duly provided for, on any Interest Payment Date (“*Defaulted Interest*”) will cease to be payable to the Person in whose name such Bond is registered on the relevant Record Date and shall be paid in the manner described in this paragraph. The Trustee may elect to make payment of any Defaulted Interest to the persons in whose names the Bonds (or their respective predecessor Bonds) are registered at the close of business on a special record date for the payment of such Defaulted Interest (a “*Special Record Date*”), which shall be fixed in the following manner. The Trustee shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment (a “*Special Interest Payment Date*”), shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the Special Interest Payment Date and shall cause notice of the Special Interest Payment Date and the Special Record Date therefor to be mailed, first class, postage prepaid, to each Bondholder at such Bondholder’s address as it appears in the Bond Register not less than 10 days prior to such Special Record Date; notice of the Special Interest Payment Date and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds (or their respective predecessor Bonds) are registered on such Special Record Date.

Payment of the principal of the Bonds and premium, if any, shall be made upon presentation and surrender of the Bonds at the Principal Office of the Trustee. Interest on the Bonds shall be paid by check mailed on the payment date to the registered owner thereof at such registered owner’s address as it appears on the Bond Register on the Record Date. Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds Outstanding received by the Trustee at least five days prior to such Record Date, all payments of principal, premium, if any, and interest on the Bonds less any reasonable wire transfer fees imposed by the Trustee shall be paid by wire transfer in immediately available funds to an account within the United States designated by such registered owner. Payment of the Purchase Price of any Bonds

tendered for purchase on a Settlement Date shall be payable in lawful money of the United States of America only upon presentation thereof at the Principal Office of the Tender Agent.

In any case where a date of payment with respect to any Bonds shall be a day other than a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no interest shall accrue for the period after such date providing that payment is made on such next succeeding Business Day.

VARIABLE RATES FOR THE BONDS

The Bonds delivered on the Delivery Date shall bear interest at a Variable Rate established for the Bonds, computed on the basis of a 365-day or 366-day year, for the actual number of days elapsed from and including the Delivery Date to and including the following Wednesday; and thereafter shall continue to bear interest at a Variable Rate, until converted to a Reset Rate or Fixed Rate as provided in the Indenture. The Variable Rate of interest borne by the Bonds during each Variable Period for each Variable Interest Accrual Period shall be the Variable Rate determined by the Remarketing Agent and reported in writing to the Trustee, the Tender Agent, the Borrower, the Issuer, the Bank (prior to the Conversion Date), the Servicer (from and after the Conversion Date) and the Credit Facility Provider as provided in the Indenture, on the Variable Interest Computation Date for each such Variable Interest Accrual Period. Any Bondholder may obtain information on the Variable Rate by request to the Remarketing Agent. "Variable Interest Computation Date" means with respect to any Variable Interest Accrual Period, each Wednesday during such period, or if any such Wednesday is not a Business Day, the next succeeding Business Day. "Variable Interest Accrual Period" means, during any Variable Period, a period beginning on the date following any Variable Interest Computation Date and ending on the next succeeding Variable Interest Computation Date and the first Variable Interest Accrual Period for any Variable Period shall begin on the first day of such Variable Period and end on the next succeeding Variable Interest Computation Date.

The Variable Rate determined by the Remarketing Agent on each Variable Interest Computation Date shall be that rate of interest which, if borne by the Bonds, would, in its reasonable professional judgment, on the basis of prevailing financial market conditions, be the interest rate necessary, but which would not exceed the interest rate necessary, to be borne by the Bonds in order for the market value of the Bonds on such Variable Interest Computation Date to be 100% of the principal amount thereof (disregarding accrued interest) if the Bonds were sold on such Variable Interest Computation Date; provided, however, that in no event shall the Variable Rate at any time exceed the Maximum Rate. If for any reason the Remarketing Agent shall fail to determine the rate of interest or if the rate of interest determined by the Remarketing Agent is held to be invalid or unenforceable for any Variable Interest Accrual Period (other than in connection with an Event of Default pursuant to the Indenture), then the Variable Rate for such Variable Rate Interest Accrual Period shall be the Index Rate in effect on the applicable Variable Interest Computation Date.

Anything in the Indenture to the contrary notwithstanding, so long as an Event of Default relating to the failure of the Credit Facility Provider to make a required payment when due shall have occurred and be continuing, the Variable Rate for each Variable Interest Accrual Period shall be (i) for the first 60 days following the occurrence of such Event of Default, the Index Rate in effect on the applicable Variable Interest Computation Date plus 4% per annum, and (ii) thereafter, the Maximum Rate. The Remarketing Agent shall not be responsible for determining the Variable Rate for any Variable Interest Accrual Period after the occurrence and during the continuance of an Event of Default due to the failure of the Credit Facility Provider to make a required payment when due.

The determination of the Variable Rate by the Remarketing Agent shall (in the absence of manifest error) be conclusive and binding on the holders of the Bonds, the Issuer, the Borrower, the Credit Facility Provider, the Remarketing Agent, the Tender Agent, the Trustee, and the Servicer (from and after the Conversion Date), and each shall be protected in relying on it.

Following any Reset Adjustment Date, the interest rate on the Bonds may be converted again to a Variable Rate at the election or deemed election of the Borrower in accordance with the procedures in the Indenture, which date of adjustment to a Variable Rate shall be the Variable Rate Adjustment Date.

BOOK-ENTRY ONLY SYSTEM

The Bonds will be available in book-entry form only in Authorized Denominations. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for the Bonds, in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and

pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the tender agent or the remarketing agent, as applicable, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Tender Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the DTC account of the Tender Agent.

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC in accordance with the terms of the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Borrower believes to be reliable, but the Borrower takes no responsibility for the accuracy thereof.

DEMAND FOR AND MANDATORY PURCHASE OF THE BONDS

Any Bonds (other than Purchased Bonds), or any units of principal amount thereof in Authorized Denominations, are to be purchased from the proceeds of remarketing thereof as described in the Indenture or from the sources prescribed in the Indenture, (i) on demand of the owner of such Bond (or, so long as Bonds are in "book-entry only" form, demand of a DTC Participant, with respect to such Bonds) on any Business Day during a Variable Period, or (ii) upon being tendered or deemed tendered pursuant to the Indenture, on any Reset Adjustment Date, Variable Rate Adjustment Date, the Fixed Rate Adjustment Date and any Substitution Date (even if such Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date fails to occur). The Bonds are to be purchased for a Purchase Price equal to the principal amount thereof, or of any units thereof purchased in Authorized Denominations, plus interest accrued thereon, if any, to the Settlement Date. The Bonds are to be purchased upon (a) in the case of a purchase upon the demand of an owner or DTC Participant, delivery to the Tender Agent, with a copy to the Trustee and the Remarketing Agent, of a written notice in the form set forth in the Indenture (a "*Tender Notice*") which states (i) the principal amount of such Bond for which payment is demanded, (ii) that such demand is irrevocable and (iii) the date on which such Bond or units of principal amount thereof in Authorized Denominations is to be purchased pursuant to the Indenture, which date is to be a Business Day not prior to the seventh day next succeeding the date of the receipt of the Tender Notice by the Tender Agent; and (b) in all cases, delivery of such Bond (with an appropriate transfer of registration form executed in blank and in form satisfactory to the Tender Agent) to the Tender Agent, at or prior to 9:30 a.m., Washington, D.C., time, on the Settlement Date. While a "book-entry only" system is in effect with respect to the Bonds, delivery of Bonds for purchase on the Settlement Date shall be affected in the manner set forth by the depository. See "BOOK-ENTRY ONLY SYSTEM" above.

Bonds not delivered to the Tender Agent on or prior to 9:30 a.m., Washington, D.C. time, on the Settlement Date will be deemed tendered and purchased for all purposes of the Indenture, and interest will cease to accrue on such Bonds on the related Settlement Date.

Payment of the Purchase Price of any Bond shall be made on the Settlement Date by check or by wire transfer (if requested in writing by the Bondholder) or as designated in the Tender Notice with respect to such Bond, but only upon delivery and surrender of such Bond to the Tender Agent.

If the Trustee has received the items required by the Indenture, the Trustee will (i) not later than the 15th day before any Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date (or, if such day is not a Business Day, then on the next succeeding Business Day), notify the Tender Agent by telephone, promptly confirmed in writing, with a copy to the Remarketing Agent and (ii) not later than the 9th day before any such Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date, notify the Bondholders by first class mail that all outstanding Bonds (other than Purchased Bonds) will be subject to mandatory tender and if not so tendered, will be deemed to have been tendered for purchase on each such Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date, in each case as provided in the Indenture, at the Purchase Price.

If all of the Bonds have been called for redemption during any Variable Period, the Bonds may continue to be remarketed until the redemption date, provided the purchasers of such Bonds are given notice of the call for redemption prior to purchase of any Bonds.

No Bonds are to be purchased or remarketed pursuant to the Indenture if an Event of Default under the Indenture (other than certain Events of Default under the Indenture with respect to defaults by the Issuer) has occurred and is continuing and would not be cured as a result of such tender and remarketing of the Bonds; nor is any Bond to be purchased pursuant to the Indenture if such Bond is registered in the name of the Issuer, the Borrower or the Credit Facility Provider, or known by the Trustee (the Trustee will have no duty to inquire as to any such nominees) to be registered in the name of any general partner, member or guarantor of the Borrower or any nominee of the Issuer, the Borrower, the Credit Facility Provider or any such general partner, member or guarantor of the Borrower unless the Credit Facility will be in full force and effect after such purchase with respect to such Bonds.

MANDATORY TENDER OF BONDS

Holders of the Bonds will be required to tender their Bonds to the Tender Agent on (i) any Reset Adjustment Date, Variable Rate Adjustment Date or the Fixed Rate Adjustment Date in accordance with the provisions of the Indenture; and (ii) any Substitution Date in accordance with and subject to the provisions of the Indenture.

Any Bond required to be tendered on a Reset Adjustment Date, a Variable Rate Adjustment Date, the Fixed Rate Adjustment Date or a Substitution Date that is not tendered as of such date will be deemed to have been tendered to the Tender Agent on such date and will thereafter cease to bear interest and no longer be considered to be Outstanding under the Indenture.

PURCHASE OF BONDS NOT REMARKETED

In the event that either the Tender Agent shall not have received notice of successful remarketing of tendered Bonds by the day which is one (1) Business Day prior to the Settlement Date, or the proceeds of remarketing of any tendered Bond have not been received by the Tender Agent on or prior to 10:00 a.m., Washington, D.C. time on the Settlement Date, the Trustee shall, within the time required by the terms of the Credit Facility, draw on the then existing Credit Facility in an amount sufficient to enable the Tender Agent to pay the Purchase Price of each such Bond. On each Settlement Date, the Trustee is to pay or cause to be paid to the Tender Agent the Purchase Price of any Bonds tendered pursuant to the Indenture and which have not been remarketed pursuant to the Indenture, but only from (i) moneys obtained by the Trustee pursuant to the Credit Facility then in effect to enable the Trustee to pay the Purchase Price of such tendered Bonds, which amounts are to be transferred by the Trustee to the Tender Agent at or before 3:00 p.m., Washington, D.C. time, on the Settlement Date; (ii) Eligible Funds from the Borrower to the extent that moneys obtained pursuant to (i) above are insufficient on any date to pay the Purchase Price of tendered Bonds; and (iii) in connection with a mandatory tender on a Substitution Date under the Indenture, amounts in the Bond Mortgage Loan Fund.

Upon receipt of such Purchase Price and upon receipt of the Bonds tendered for purchase pursuant to the Indenture, the Tender Agent is to pay such Purchase Price to the registered owners thereof; provided, that if the Purchase Price was theretofore paid from the proceeds of a draw on the Credit Facility, the Tender Agent is to pay such amount to the Credit Facility Provider. Any amounts drawn under the Credit Facility to purchase Bonds is to be used solely for such purpose. Any Bonds so purchased with amounts drawn under the Credit Facility by the Trustee are to be purchased for the account of the Borrower and registered as provided in the Pledge Agreement. Amounts drawn under the Credit Facility that are not used to purchase Bonds pursuant to the Indenture are to be remitted by the Trustee or the Tender Agent to the Credit Facility Provider promptly upon payment of the Purchase Price of the Bonds.

MANDATORY TENDER OF THE BONDS ON SUBSTITUTION DATE

The Bonds shall be subject to mandatory tender for purchase on any Substitution Date from the sources specified in the Indenture, at a Purchase Price equal to the principal amount thereof plus accrued interest to the Substitution Date; provided, however, such mandatory tender shall be subject to (a) the receipt by the Tender Agent on the Substitution Date of remarketing proceeds in an amount equal to one hundred percent (100%) of the Purchase Price of the Outstanding Bonds, and (b) the receipt by the Trustee of an Alternate Credit Facility and the other documents required by the Financing Agreement. If, for any reason, (i) the Tender Agent does not receive remarketing proceeds in an amount sufficient to pay one hundred percent (100%) of the Purchase Price of the Outstanding Bonds, or (ii) the Alternate Credit Facility and the other documents required by the Financing Agreement are not received by the Trustee by 2:00 p.m., Washington, D.C. time, on the Substitution Date, the Bonds shall be returned to the Holders thereof and such Bonds shall continue to be subject to the terms of the Indenture.

Upon receipt by the Trustee of a form of the Alternate Credit Facility to be in effect on and after the Substitution Date, the form of the disclosure document (if any) to be used in connection with the remarketing of the Bonds on the Substitution Date, and a form of the documents required pursuant to the Financing Agreement, the Trustee shall establish the Substitution Date for the mandatory tender and purchase of the Bonds. Such Substitution Date shall be not less than five (5) days following the Trustee's receipt of the Alternate Credit Facility to be in effect on and after the Substitution Date (which Alternate Credit Facility may be delivered in escrow), and such other required documents; provided, however, the Substitution Date may be at a later date if the Trustee has received a commitment to extend the existing Credit Facility or the existing Credit Facility will be in place for up to a time period of not less than fifteen (15) days following the Trustee's receipt of the Alternate Credit Facility.

The Trustee shall give notice to the owners of the Bonds, by first class mail not less than nine (9) days before the Substitution Date specifying: (i) the Substitution Date, (ii) that all Bonds must be surrendered to the Tender Agent for purchase not later than 9:30 a.m., Washington, D.C. time, on the Substitution Date, and (iii) that such tender is subject to cancellation if the conditions to substitution of an Alternate Credit Facility are not satisfied on the Substitution Date.

Unless such tender is revoked by the Trustee, as provided in the Indenture, any Bond not tendered to the Tender Agent for purchase in accordance with the provisions of the Indenture on the Substitution Date (including any Substitution Date which fails to occur) shall be deemed to have been tendered for purchase on such Substitution Date for all purposes of the Indenture; provided, however, payment on such Bonds shall only be made upon presentation thereof.

The Trustee shall draw on the existing Credit Facility as set forth in the Indenture with regard to the purchase of Bonds pursuant to the provisions of the Indenture summarized in this section prior to the delivery of the then outstanding Credit Facility to the Credit Facility Provider and prior to providing notice to the then existing Credit Facility Provider that the Alternate Credit Facility is in effect; provided, however, that the Trustee shall not surrender the existing Credit Facility until all draws have been honored by the related Credit Facility Provider.

DISCLOSURE CONCERNING SALES BY REMARKETING AGENT

The Remarketing Agent is Paid by the Borrower. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Issuer with the approval of the Credit Facility Provider and the Borrower and is paid by the Borrower for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent May Purchase Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, may acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by purchasing and selling Bonds other than in connection with a tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rates at par plus accrued interest, if any, on and as of the applicable Variable Interest Computation Date. The interest rates will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a Variable Interest Computation Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the Variable Interest Computation Date, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Resignation or Removal of Remarketing Agent; Termination or Suspension of Remarketing. The Remarketing Agent may at any time resign and be discharged of its duties and

obligations under the Remarketing Agreement upon compliance with the provisions of the Indenture, but any such resignation shall not be effective until a successor is appointed and has accepted such appointment. The Remarketing Agent may be removed upon compliance with the provisions of the Indenture. In the event of the resignation or removal of the Remarketing Agent, the Issuer, with the approval of the Borrower and the Credit Facility Provider, is required to promptly appoint a successor Remarketing Agent as provided in the Indenture. See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Qualifications and Resignation or Removal of Remarketing Agent” herein. The obligation of the Remarketing Agent to use its best efforts to remarket the Bonds also may terminate if an event of default with respect to the Bonds occurs or may be suspended in certain events as set forth in the Remarketing Agreement.

OPTIONAL REDEMPTION

With the prior written consent of the Credit Facility Provider, the Bonds are subject to optional redemption in whole or in part as a result of optional prepayments on the Bond Mortgage Loan in accordance with the prepayment restrictions set forth in the Financing Agreement from payments made under the Credit Facility or from other Eligible Funds deposited with the Trustee, on any Interest Payment Date at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to the redemption date, without premium.

The Trustee shall effect an optional redemption of Bonds as described above and subject to the notice requirements described below, not later than 35 days following its receipt of moneys representing an optional prepayment of the Bond Mortgage Loan.

MANDATORY REDEMPTION

The Bonds are subject to mandatory redemption on any date, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date, without premium, at the earliest practicable date from payments made under the Credit Facility or from funds transferred from the Bond Mortgage Loan Fund to the Redemption Fund pursuant to the Indenture, upon the occurrence of any of the following:

(i) in whole or in part, upon receipt by the Trustee of (1) proceeds of a draw under the Credit Facility, in the amount of Net Proceeds representing casualty insurance proceeds or condemnation awards paid as a prepayment of the Bond Mortgage Loan, such amount to be applied to reimburse the Credit Facility Provider for the draw under the Credit Facility as a result of casualty or condemnation of the Project and (2) a written direction by the Credit Facility Provider to redeem such Bonds using moneys obtained as a result of a draw upon the Credit Facility; or

(ii) in whole, (1) upon receipt by the Trustee of amounts from the Credit Facility Provider pursuant to the Credit Facility or from funds transferred from the Bond

Mortgage Loan Fund to the Redemption Fund pursuant to the Indenture as a result of the occurrence of a default under any Bond Mortgage Loan Document and receipt by the Trustee of a written direction by the Credit Facility Provider to redeem the Bonds pursuant to the Credit Facility or (2) upon receipt by the Trustee of notice from the Construction Phase Credit Facility Provider that the interest component of the Construction Phase Credit Facility will not be reinstated following a draw on the Construction Phase Credit Facility to pay interest on the Bonds; or

(iii) in whole, on the last Business Day which is not less than five days before the date of expiration of any Credit Facility unless the Trustee receives a renewal or extension of or replacement for such Credit Facility meeting the requirements of the Financing Agreement or, in the case of a replacement of the Credit Facility in connection with a Reset Adjustment Date or the Fixed Rate Adjustment Date pursuant to the Indenture, an irrevocable commitment of an entity to issue an Alternate Credit Facility to be in effect upon and after such Reset Adjustment Date or Fixed Rate Adjustment Date, in each case not less than 30 days before the expiration of the then existing Credit Facility; or

(iv) in part in Authorized Denominations, at the direction of the Credit Facility Provider from and after Conversion, (1) on each Reset Adjustment Date, each Variable Rate Adjustment Date and on the Fixed Rate Adjustment Date in an amount not greater than the amount in the Principal Reserve Fund on the first day of the month prior to such Reset Adjustment Date, Variable Rate Adjustment Date or the Fixed Rate Adjustment Date, as applicable or (2) on any Interest Payment Date during a Variable Period, in an amount not greater than the amount in the Principal Reserve Fund on the first day of the month prior to such Interest Payment Date; or

(v) in part, in the event that the Borrower elects to make a Pre-Conversion Loan Equalization Payment, in an amount equal to the amount prepaid by the Borrower; or

(vi) in part, in the event and to the extent that amounts remaining in the Bond Mortgage Loan Fund are transferred to the Redemption Fund pursuant to the Indenture for application to the redemption of Bonds; or

(vii) in part, on the Conversion Date in the amount of \$_____, pursuant to a mandatory principal prepayment of the Bond Mortgage Loan.

SELECTION OF BONDS FOR REDEMPTION

If less than all the Bonds then Outstanding shall be called for redemption, the Trustee shall redeem an amount of Bonds so that the resulting decrease in debt service on the Bonds in each semiannual period ending on an Interest Payment Date is proportional, as nearly as

practicable, to the decrease in the payments on the Bond Mortgage Note in each such semiannual period, and the Bonds shall be selected by lot within each maturity, the cost of such selection being at the Borrower's expense.

Bonds shall be redeemed pursuant to the Indenture only in Authorized Denominations.

NOTICE OF REDEMPTION

Notice of the intended redemption of each Bond is to be given by the Trustee by first class mail, postage prepaid, or by facsimile transmission, to the registered owner at the address of such owner shown on the Bond Register. All such redemption notices are to be given not less than 10 days (not less than 30 days in the case of optional redemptions) nor more than 60 days prior to the date fixed for redemption. The Trustee may provide a conditional notice of redemption upon the direction of the Credit Facility Provider or the Borrower (with the prior written consent of the Credit Facility Provider).

Notices of redemption are to state the redemption date and the redemption price, the place or places where amounts due upon redemption will be payable, and, if less than all of the Outstanding Bonds are called for redemption, are to state (i) the numbers of the Bonds to be redeemed by giving the individual certificate number of each Bond to be redeemed or is to state that all Bonds between two stated certificate numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption; (ii) the CUSIP numbers of all Bonds being redeemed if available; (iii) the amount of each Bond being redeemed (in the case of a partial redemption); (iv) the date of issue of the Bond as originally issued; (v) the rate of interest borne by each Bond redeemed; (vi) the maturity date of each Bond being redeemed; (vii) the possibility of a purchase of Bonds in lieu of redemption, if applicable; (viii) the conditions, if any, that must be satisfied in order for the redemption to take place on the scheduled date of redemption; and (ix) any other descriptive information needed to identify accurately the Bonds being redeemed.

Each notice of redemption is to state that further interest on the Bonds will not accrue from and after the redemption date and that payment of the principal amount and premium, if any, will be made upon presentation and surrender of the Bonds at the Principal Office of the Trustee unless the Bonds are then held in a book-entry only system of registration.

Notice of such redemption is also to be sent by certified mail, overnight delivery service, facsimile transmission or other secure means, postage prepaid, to the Issuer, to the Credit Facility Provider, to the Servicer (from and after the Conversion Date), to the Rating Agency, to the Remarketing Agent, and to the Municipal Securities Rulemaking Board (if required), at least two Business Days prior to the mailing of notices described above, and in any event no later than simultaneously with the mailing of notices required by the third preceding paragraph above; provided that neither failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Bonds.

In addition to providing notice of redemption as set forth above, if the Bonds are no longer held in book-entry form, the Trustee is to send a second notice of redemption within 60 days following the redemption date, by certified mail, overnight delivery service, or other secure means, postage prepaid to the registered owners of any Bonds called for redemption, at their addresses appearing on the Bond Register, who have not surrendered their Bonds for redemption within 30 days following the redemption date.

Failure to give notice by mailing to the registered owner of any Bond designated for redemption or tender or to any depository or information service will not affect the validity of the proceedings for the redemption of any other Bond if notice of such redemption has been mailed as provided in the Indenture.

EFFECT OF NOTICE OF REDEMPTION

If a conditional notice of redemption has been provided pursuant to the terms of the Indenture and the conditions are not satisfied, such notice of redemption shall be of no force and effect and the Bondholders shall be restored to their former positions as though no such notice of redemption had been delivered. Notice of redemption having been given in the manner described above and if either there were no conditions to such redemption or the conditions have been satisfied (or in the event no such notice is required under the Indenture), and money for the redemption being held by the Trustee or Paying Agent for that purpose, thereupon the Bonds so called for redemption shall become due and payable on the redemption date, and interest thereon shall cease to accrue on such date; and such Bonds shall thereafter no longer be entitled to any security or benefit under the Indenture except to receive payment of the redemption price thereof.

PURCHASE OF BONDS IN WHOLE IN LIEU OF REDEMPTION

Notwithstanding anything in the Indenture to the contrary, at any time that the Bonds are subject to redemption in whole pursuant to the provisions of the Indenture, all (but not less than all) of the Bonds to be redeemed may be purchased by the Trustee (for the account of the Borrower or the Credit Facility Provider or their respective designee, as directed by such party) on the date which would be the redemption date at the direction of the Credit Facility Provider or the Borrower, with the prior written consent of the Credit Facility Provider (which direction shall specify that such purchase is pursuant to the Indenture), who shall give the Trustee at least one Business Day's notice prior to such redemption date, at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date. The Bonds shall be purchased in lieu of redemption only from amounts provided by the Credit Facility Provider or from other Eligible Funds, in that order of priority. In the event the Trustee is so directed to purchase Bonds in lieu of redemption, no notice to the holders of the Bonds to be so purchased (other than the notice of redemption otherwise required under the Indenture) shall be required, and the Trustee shall be authorized to apply to such purpose the funds in the Redemption Account which would have been used to pay the redemption price for such Bonds if such Bonds

had been redeemed rather than purchased. Such Bonds so purchased for the account of the Borrower shall for all purposes under the Indenture constitute Purchased Bonds held by the Custodian pursuant to the Pledge Agreement and may be remarketed, so long as the Credit Facility is then in effect with respect to the Bonds, by the Remarketing Agent in accordance with the Indenture.

In addition, the Credit Facility Provider shall have the right to transfer the Purchased Bonds (without reinstatement of the then existing Credit Facility or delivery to the Trustee of an Alternate Credit Facility, which will result in such Bonds being unrated) only to a single Bondholder which has provided the Trustee with an investment letter in the form prescribed by the Indenture (and otherwise subject to the provisions of the Indenture), provided that an opinion of Bond Counsel is delivered to the Trustee to the effect that such transfer will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Such Purchased Bonds shall not be transferred unless and until the Credit Facility is reinstated, except to a single Bondholder which has provided the Trustee with an investment letter in the form prescribed by the Indenture, and if not remarketed or transferred as provided in the Indenture, shall be redeemed and cancelled automatically by the Trustee on the date which is two (2) years from the date of purchase, unless an opinion of Bond Counsel is delivered to the Trustee to the effect that not redeeming and canceling such Purchased Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Any purchase of Bonds under the Indenture is not intended as an extinguishment of the debt represented by the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

TRUST ESTATE

Under the Indenture, the Issuer grants to the Trustee a security interest in the following (said property being herein referred to as the "*Trust Estate*"), in order to secure the payment of principal of, premium, if any, and interest on the Bonds according to their tenor and effect, the payment to the Credit Facility Provider for amounts owed under the Reimbursement Agreement, and the performance and observance by the Issuer of all the covenants expressed in the Indenture and in the Bonds:

- (a) All right, title and interest of the Issuer in and to all Revenues;
- (b) All right, title and interest of the Issuer in and to the Financing Agreement, the Bond Mortgage Note, the Credit Facility and the Bond Mortgage (other than the Unassigned Rights), including all extensions and renewals of the terms thereof, if any, including, but without limiting the generality of the foregoing, the present and continuing right to receive, receipt for, collect or make claim for any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder (including all casualty insurance benefits or condemnation awards subject to the interest

of the Credit Facility Provider under the Reimbursement Agreement and the Intercreditor Agreement), whether payable under the above referenced documents or otherwise, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer or any other person is or may become entitled to do under said documents; and

(c) Except for amounts in the Bond Purchase Fund, the Rebate Fund, the Principal Reserve Fund, the Equity Account in the Bond Mortgage Loan Fund and the Cost of Issuance Fund, all funds, money and securities and any and all other rights and interests in property whether tangible or intangible from time to time after the Delivery Date by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture for the Bonds by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

LIMITED OBLIGATIONS

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES OF AMERICA. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED, PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT, TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC.

THE BANK'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE LETTER OF CREDIT. THE BONDS ARE NOT AN OBLIGATION OF THE BANK AND ARE NOT DIRECTLY GUARANTEED BY THE BANK.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY OUT OF THE REVENUES, RECEIPTS, AND OTHER MONEYS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. NEITHER THE FAITH AND CREDIT OF THE STATE, THE ISSUER NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR OF INTEREST ON THE BONDS.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds, or for any claim based thereon or upon any obligation, covenant or agreement contained therein or in the Indenture, against any past, present or future officer, employee or agent of the Issuer, under any rule of law or equity or statutory or constitutional provision, or by the enforcement of any assessment or penalty or otherwise.

THE LETTER OF CREDIT

To provide security for the Bonds prior to Conversion, the Bank will deliver its Letter of Credit to the Trustee. See “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER” and Appendix D hereto. The Trustee is instructed to draw on the Letter of Credit to pay the principal and Purchase Price of and interest on the Bonds when due. The obligations of the Bank under the Letter of Credit are unsecured obligations of the Bank.

THE CREDIT ENHANCEMENT AGREEMENT

If the Conditions to Conversion as set forth in the Forward Commitment and the Construction Phase Financing Agreement are satisfied on or prior to the Forward Commitment Maturity Date, Freddie Mac will deliver the Credit Enhancement Agreement to the Trustee to provide security for the Bonds. See “FREDDIE MAC” herein and Appendix B hereto. Pursuant to the Credit Enhancement Agreement, Freddie Mac is required to pay Guaranteed Payments with respect to the Bond Mortgage Loan when and in the amounts due, and the Purchase Price of the Bonds in accordance with the terms of the Indenture and the Credit Enhancement Agreement. The obligations of Freddie Mac under the Credit Enhancement Agreement are unsecured obligations of Freddie Mac.

THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER

The information presented under this caption “THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER” has been supplied by the Bank. None of the Issuer, the Trustee, the Borrower or the Underwriter has independently verified such information, and none assumes responsibility for the accuracy of such information.

JPMorgan Chase Bank, National Association (the “Bank”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of June 30th, 2009, JPMorgan Chase Bank, National Association, had total assets of \$1,664 billion, total net loans of \$567.8 billion, total deposits of \$974.5 billion, and total stockholder’s equity of \$132.1 billion. These figures are extracted from the Bank’s unaudited Consolidated Reports of Condition and Income (the “Call Report”) as at June 30th, 2009,

prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2008, of JPMorgan Chase & Co., the 2008 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

THE INFORMATION CONTAINED IN THIS SECTION RELATES TO AND HAS BEEN OBTAINED FROM THE BANK. THE DELIVERY OF THE OFFICIAL STATEMENT SHALL NOT CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE BANK SINCE THE DATE HEREOF, OR THAT THE INFORMATION CONTAINED OR REFERRED TO IN THIS SECTION IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

THE LETTER OF CREDIT

THE LETTER OF CREDIT

The following is a brief summary of certain provisions of the Letter of Credit. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Letter of Credit, a form of which is attached hereto as Appendix D, and the final copy of which is on file with the Trustee.

The Letter of Credit is an irrevocable, direct pay letter of credit in the stated amount of \$_____, of which (1) \$_____ will be available to the Trustee to pay the principal of the Bonds at maturity or upon redemption or acceleration or to pay the portion of the purchase price of tendered Bonds representing the principal amount of the tendered Bonds, and (2) \$_____ will be available to pay interest on the Bonds or to pay the portion of the purchase price of tendered Bonds representing accrued interest on the tendered Bonds.

Drawings by the Trustee under the Letter of Credit will reduce the amounts available for subsequent drawings, subject to reinstatement as provided in the Letter of Credit, as follows:

Upon the payment by the Construction Phase Credit Facility Provider of each drawing upon the Letter of Credit, the amount that can be drawn upon the Letter of Credit shall be reduced and reinstated as follows:

(A) Upon payment by the Construction Phase Credit Facility Provider of each drawing in the form of Annex A to the Letter of Credit (an “A Drawing”), the total amount available to be drawn under the Letter of Credit shall be reduced by the amount of such A Drawing with respect to all demands presented to the Construction Phase Credit Facility Provider after the time it receives such A Drawing; *provided, however*, that the amount of such A Drawing shall be automatically reinstated on the fourth Business Day following the date such A Drawing is honored by the Construction Phase Credit Facility Provider, unless (i) the Trustee shall have received notice from the Construction Phase Credit Facility Provider, in a mode specified in the Letter of Credit, no later than three Business Days after such A Drawing is honored by the Letter of Credit that there shall be no such reinstatement, or (ii) such fourth Business Day falls after the date of expiration of the Letter of Credit;

(B) Upon payment by the Construction Phase Credit Facility Provider of each drawing in the form of Annex B to the Letter of Credit (a “B Drawing”), the total amount available to be drawn under the Letter of Credit shall be reduced with respect to all demands presented to the Construction Phase Credit Facility Provider after the time it receives such B Drawing by the sum of (1) the amount inserted as principal in paragraph 5(A) of the B Drawing plus (2) the *greater* of (a) the amount inserted as interest in paragraph 5(B) of the B Drawing and (b) interest on the amount inserted as principal in paragraph 5(A) of the B Drawing calculated for 35 days at the rate of _____ percent per annum based on a year of 365 days (with any fraction of a cent being rounded upward to the nearest whole cent), and no part of such sum shall be reinstated.

(C) Upon payment by the Construction Phase Credit Facility Provider of each drawing in the form of Annex C to the Letter of Credit (a “C Drawing”), the total amount available to be drawn under the Letter of Credit shall be reduced with respect to all demands presented to the Construction Phase Credit Facility Provider after the time it receives such C Drawing by the sum of (1) the amount inserted as principal in paragraph 5(A) of the C Drawing plus (2) the *greater* of (a) the amount inserted as interest in paragraph 5(B) of the C Drawing and (b) interest on the amount inserted as principal in paragraph 5(A) of the C Drawing calculated for 35 days at the rate of _____ percent per annum based on a year of 365 days (with any fraction of a cent being rounded upward to the nearest whole cent); *provided, however*, that if the Bonds related to such C Drawing are remarketed and the remarketing proceeds are paid to the Construction Phase Credit Facility Provider prior to the date of expiration of the Letter of Credit, then on the day the Construction Phase Credit Facility Provider receives such remarketing proceeds the amount of the Letter of Credit shall be reinstated by an amount which equals the sum of (i) the amount paid to the Letter of Credit from such remarketing proceeds and (ii) interest on such amount calculated for the same number of days, at the same interest rate, and on the basis of a year of the same number of days as is specified in (2)(b) of this paragraph (C) (with any fraction of a cent being rounded upward to the nearest whole cent); *provided, however*, that in no event will the total amount of all C Drawing

reinstatements exceed the total amount of all reductions of amounts available under the Letter of Credit made pursuant to this paragraph (C).

(D) Upon presentation to the Construction Phase Credit Facility Provider of a D Drawing in compliance with the terms of the Letter of Credit, no further demand whatsoever may be presented under the Letter of Credit.

The Letter of Credit expires on November 1, 2011, with one option to extend for six (6) months, but is subject to earlier surrender for cancellation in certain events, including delivery of an Alternate Credit Facility.

For information regarding the Construction Phase Credit Facility Provider, see "THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER" herein. The form of the Construction Phase Credit Facility is attached hereto as "APPENDIX D – FORM OF CONSTRUCTION PHASE CREDIT FACILITY."

THE CREDIT ENHANCEMENT AGREEMENT

THE CREDIT ENHANCEMENT AGREEMENT

If the Conditions to Conversion (as defined in the Construction Phase Financing Agreement) are satisfied as provided therein and in the Forward Commitment, Freddie Mac has agreed to deliver to the Trustee on the Conversion Date a Credit Enhancement Agreement substantially in the form attached hereto as Appendix B.

Upon Conversion, the Letter of Credit will terminate and the Credit Enhancement Agreement will secure credit enhancement for payments of principal and interest on the Bond Mortgage Loan and payments of the Purchase Price on the Bonds in an amount equal to the principal and interest due on the Bonds until its termination on June 6, 2047 or upon the earlier redemption (or purchase in lieu thereof) of the Bonds or substitution of an Alternate Credit Facility under the Indenture. Pursuant to the Credit Enhancement Agreement, Freddie Mac is required to pay Guaranteed Payments with respect to the Financing Agreement when and in the amounts due, and the Purchase Price of the Bonds in accordance with the terms of the Credit Enhancement Agreement. See "FREDDIE MAC."

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS WILL BE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED

STATES, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OR BY FREDDIE MAC. UNTIL DELIVERY OF THE CREDIT ENHANCEMENT AGREEMENT FOLLOWING SATISFACTION OF THOSE CONDITIONS TO CONVERSION SET FORTH IN THE FORWARD COMMITMENT, FREDDIE MAC WILL HAVE NO OBLIGATIONS WITH RESPECT TO THE BONDS. NO ASSURANCES CAN BE GIVEN THAT THE CREDIT ENHANCEMENT AGREEMENT WILL BE DELIVERED.

THE FREDDIE MAC REIMBURSEMENT AGREEMENT

The following is a brief summary of certain provisions of the Freddie Mac Reimbursement Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Freddie Mac Reimbursement Agreement, a copy of which is on file with the Trustee. Capitalized terms used in this caption and not otherwise defined herein shall have the meanings given them in the Freddie Mac Reimbursement Agreement.

Upon satisfaction of the Conditions to Conversion, the Credit Enhancement Agreement will be executed and delivered to the Trustee. Under the Freddie Mac Reimbursement Agreement, the Borrower will be obligated to repay Freddie Mac all sums of money advanced by Freddie Mac to the Trustee under the Credit Enhancement Agreement. The Freddie Mac Reimbursement Agreement also provides that the Borrower is to pay the Freddie Mac Credit Enhancement Fee, the Servicing Fee, and other fees and expenses as provided therein.

Under the provisions of the Freddie Mac Reimbursement Agreement, Freddie Mac may declare an event of default if any one of the following occurs:

- (a) The Borrower fails to pay when due any amount payable by the Borrower under the Freddie Mac Reimbursement Agreement, including, without limitation, any fees, costs or expenses.
- (b) The Borrower fails to perform its obligations with respect to certain negative covenants under the Freddie Mac Reimbursement Agreement or fails to perform its obligations to maintain Hedge Agreements meeting Freddie Mac requirements or take action to convert the Bonds to a Reset Rate or Fixed Rate if a Subsequent Hedge is not being delivered when required.
- (c) The Borrower fails to observe or perform any other term, covenant, condition or agreement set forth in the Freddie Mac Reimbursement Agreement which continues for a period of 30 days after notice of such failure by Freddie Mac to Borrower (unless such default cannot with due diligence be cured within 30 days but can be cured within a reasonable period and will not, in Freddie Mac's sole discretion, adversely affect Freddie Mac or result in impairment of the Freddie Mac Reimbursement Agreement, the Bond Mortgage, the Reimbursement Mortgage or any other security given under any

other documents executed by the Borrower in connection with the Bond issue (collectively, the “*Borrower Documents*”), in which case no Event of Default will be deemed to exist so long as Borrower has commenced to cure the default or Event of Default within 30 days after receipt of notice, and thereafter diligently and continuously prosecutes such cure to completion). However, no such notice or grace periods will apply in the case of any such failure which could, in Freddie Mac’s judgment, absent immediate exercise by Freddie Mac of a right or remedy under the Freddie Mac Reimbursement Agreement, result in harm to Freddie Mac, impairment of the Freddie Mac Reimbursement Agreement, the Bond Mortgage, the Reimbursement Mortgage or any other Borrower Document.

(d) The Borrower fails to observe or perform any other term, covenant, condition or agreement set forth in any of the other Borrower Documents or there otherwise occurs an “Event of Default” under the Reimbursement Mortgage or an event of default under any of the other Borrower Documents (taking into account any applicable cure period).

(e) Any representation or warranty made by or on behalf of the Borrower in the Freddie Mac Reimbursement Agreement, in any Borrower Document or in any certificate delivered by the Borrower to Freddie Mac or to the Servicer pursuant to the Freddie Mac Reimbursement Agreement or any other Borrower Document is inaccurate or incorrect in any material respect when made or deemed made.

(f) Freddie Mac has given the Borrower written notice that Purchased Bonds have not been remarketed as of the 90th day following purchase by the Trustee on behalf of the Borrower and the Borrower has not reimbursed Freddie Mac for the applicable Liquidity Advance or Liquidity Withdrawal and Liquidity Use Fee and any related fees or has not paid in full all fees and other amounts due to Freddie Mac under the Freddie Mac Reimbursement Agreement.

(g) A Reset Period expires and the Borrower has not either (i) received the prior written consent of Freddie Mac to a change in interest mode or the maintenance of the existing mode or (ii) delivered an Alternate Credit Facility in accordance with the terms of the Bond Financing Documents.

(h) A default or an event of default has occurred under any subordinate indebtedness permitted to be incurred by the Borrower (after taking into account any applicable cure period).

Upon the occurrence of an event of default under the Freddie Mac Reimbursement Agreement, Freddie Mac may declare all the obligations of the Borrower under the Freddie Mac Reimbursement Agreement to be immediately due and payable, in which case all such obligations will become due and payable, without presentment, demand, protest or notice of any kind, including notice of default, notice of intent to accelerate or notice of acceleration. In

addition to the foregoing, Freddie Mac has the right to take such action at law or in equity, without notice or demand, as it deems advisable to protect and enforce the rights of Freddie Mac against the Borrower in and to the Project conveyed by the Bond Mortgage or the Reimbursement Mortgage, including, but not limited to, the following actions: (a) demand cash collateral or Qualified Investments in the full amount of the obligations under the Bonds whether or not then due and payable by Freddie Mac under the Credit Enhancement Agreement; (b) give written notice to the Trustee stating that an event of default has occurred and is continuing under the Freddie Mac Reimbursement Agreement and directing the Trustee to accelerate or cause the mandatory redemption (or purchase in lieu) of the Bonds; or (c) exercise any rights and remedies available to Freddie Mac under any of the Borrower Documents.

Freddie Mac has the right, to be exercised in its discretion, to waive any Event of Default under the Freddie Mac Reimbursement Agreement. Unless such waiver expressly provides to the contrary, any waiver so granted will extend only to the specific event or occurrence which gave rise to the Event of Default so waived and not to any other similar event or occurrence which occurs subsequent to the date of such waiver.

The obligations of the Borrower under the Freddie Mac Reimbursement Agreement will be secured by the Reimbursement Mortgage. Bondholders will have no rights under the Reimbursement Mortgage.

The Freddie Mac Reimbursement Agreement can be amended by Freddie Mac and the Borrower without the consent of, or notice to, the Issuer, the Trustee or the holders of the Bonds.

FREDDIE MAC

The information presented under this caption "FREDDIE MAC" has been supplied by Freddie Mac. None of the Issuer, the Trustee, the Borrower or the Underwriter has independently verified such information, and none assumes responsibility for the accuracy of such information. The information is qualified in its entirety by reference to the Incorporated Documents, as defined below.

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459 (the "*Freddie Mac Act*"). Freddie Mac's statutory mission is (i) to provide stability in the secondary market for residential mortgages; (ii) to respond appropriately to the private capital market; (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities); and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly,

to fund the mortgage purchase or financing activities of Freddie Mac or to guarantee Freddie Mac's securities or obligations.

Freddie Mac's principal business consists of the purchase of (i) first-lien, conventional residential mortgages subject to certain maximum loan limits and other underwriting requirements under the Freddie Mac Act and (ii) securities backed by such mortgages. Freddie Mac finances its mortgage purchases and mortgage-backed securities purchases through the issuance of a variety of securities, primarily pass-through mortgage participation certificates and unsecured debt, as well as with cash and equity capital.

On September 7, 2008, the Director of the Federal Housing Finance Agency ("*FHFA*") appointed FHFA as conservator of Freddie Mac in accordance with the Federal Housing Finance Reform Act of 2008 (the "*Reform Act*") and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. On September 7, 2008, in connection with the appointment of FHFA as conservator, Freddie Mac and the U.S. Department of the Treasury ("*Treasury*") entered into a Senior Preferred Stock Purchase Agreement. Also, pursuant to its authority under the Reform Act, Treasury announced that it has established the Government Sponsored Enterprise Credit Facility (a lending facility to ensure credit availability to Freddie Mac, Fannie Mae, and the Federal Home Loan Banks that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers) and a program under which Treasury will purchase Government Sponsored Enterprise (including Freddie Mac) mortgage-backed securities (MBS) in the open market. The announcements by FHFA and Treasury and descriptions of these programs are available at their respective websites: <http://www.OFHFA.gov> and <http://www.Treasury.gov>.

Freddie Mac registered its common stock with the U.S. Securities and Exchange Commission (the "*SEC*") under the Securities Exchange Act of 1934 (the "*Exchange Act*"), effective July 18, 2008. As a result, Freddie Mac files annual, quarterly and current reports, proxy statements and other information with the SEC. Prior to July 18, 2008, Freddie Mac prepared an annual Information Statement (containing annual financial disclosures and audited consolidated financial statements) and Information Statement Supplements (containing periodic updates to the annual Information Statement).

As described below, Freddie Mac incorporates certain documents by reference in this Official Statement, which means that Freddie Mac is disclosing information to you by referring you to those documents rather than by providing you with separate copies. Freddie Mac incorporates by reference in this Official Statement its proxy statement, and all documents that Freddie Mac files with the SEC pursuant to Section 13(a), 13(c) or 14 of the Exchange Act, after July 18, 2008 and prior to the completion of the offering of the related Bonds, excluding any information that Freddie Mac may "furnish" to the SEC but that is not deemed to be "filed." Freddie Mac also incorporates by reference its Registration Statement on Form 10, in the form declared effective by the SEC on July 18, 2008 (the "*Registration Statement*"). These documents are collectively referred to as the "Incorporated Documents" and are considered part of this Official Statement. You should read this Official Statement, in conjunction with the

Incorporated Documents. Information that Freddie Mac incorporates by reference will automatically update information in this Official Statement. Therefore, you should rely only on the most current information provided or incorporated by reference in this Official Statement.

You may read and copy any document Freddie Mac files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>.

Freddie Mac makes no representations as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility of performance of any project, or compliance with any securities, tax or other laws or regulations. Freddie Mac's role is limited to discharging its obligations under the Credit Enhancement Agreement.

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES OF AMERICA. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED, PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT, TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC.

THE PROJECT AND THE PRIVATE PARTICIPANTS

The following has been provided solely by the Borrower. Certain financial information with respect to the Project is included herein. Neither the Issuer, Freddie Mac, the Servicer nor the Underwriter, nor any of their officers or employees, make any representations as to the accuracy or sufficiency of such information.

THE PROJECT

The Project, known as Brookwood Terrace Apartments, is located on an approximately 2 acre site at 1346 E. San Antonio Street in San José, California. The Project is a new construction apartment complex that will contain 84 units located in one building above a subterranean parking garage, which covers the bulk of the site.

The Project amenities include a landscaped courtyard on the podium above the garage, a children's playground, a community laundry facility, and community space, including a kitchen and resident services programs provided by onsite staff. Unit amenities include a full appliance

package in the kitchen, including a dishwasher and garbage disposal, wood cabinets, carpet, and mini-blinds. The Project includes approximately 149 parking spaces. The unit mix of the Project is as follows:

Number of Units	Composition	Approximate Square Footage
18	1 Bedroom – 1 Bath	682
51	2 Bedroom – 2 Bath	927
15	3 Bedroom – 2 Bath	1,160

REGULATORY AGREEMENTS

Regulatory Agreement. The Regulatory Agreement imposes certain requirements with respect to the tax exempt status of the Bonds under the Code, which include a set aside of 40% of the units for rental to Low Income Tenants. See “SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT” for a description of the requirements affecting the operation of the Project in order to assume compliance with the Code.

Other Land Use Restriction Agreements. In addition, in connection with the low income housing tax credits being allowed to the Borrower in connection with the Project, the Borrower will execute the Indenture of Restrictive Covenants (the “LIHTC LURA”) in accordance with Section 42 of the Code. The LIHTC LURA will, among other things, require that the Borrower lease 59% of the units in the Project to tenants earning 50% or less of the area median gross income, 16% of the units in the Project to tenants earning 45% or less of the area median gross income and 25% of the units in the Project to tenants earning 30% or less of the area median gross income. Rents on all restricted units will be limited to 30% of an amount equal to the applicable area median income limit, as outlined above, adjusted for family size, all in accordance with Section 42 of the Code.

City 55-Year Affordability Restrictions. In connection with the City Loan for the Project, the Borrower will execute a First Amendment to 55-Year Affordability Restrictions, which will amend the 55-Year Affordability Restrictions, dated March 3, 2009 (as amended, the “Affordability Restrictions”), entered into by and between the Borrower and the City in connection with the purchase of real property for the Project. The Affordability Restrictions will require, among other things, that __ units be made available to households at or below 30% of area median gross income, __ units be made available to households at or below 45% of area median gross income and __ units be made available to households at or below 50% of area median gross income, with 1 unrestricted manager’s unit.

THE BORROWER

The Borrower is Brookwood Terrace Family Apartments, L.P., formed in California for the sole purpose of leasing, constructing and operating the Project. The general partners of the

Borrower are ROEM Brookwood Terrace Family, LLC, a newly formed California limited liability company and Pacific Housing, Inc, a 501(c)(3) public benefit corporation. The limited partners are Hudson SLP LLC, a Delaware limited liability company, and Hudson Brookwood Terrace LLC, a Delaware limited liability company. The sole member of ROEM Brookwood Terrace Family, LLC is Roem Development Corporation, a California corporation (“*ROEM*”) that was organized in 1988. ROEM has built a portfolio of affordable housing rental properties. ROEM currently owns 12 properties, totaling approximately 1, 500 units, through its various affiliated entities. These properties are all located in San José, California.

The Borrower has not acquired and does not intend to acquire any substantial assets or engage in any substantial business activities other than those related to the Project. However, affiliates of the Borrower may engage in the acquisition, development, ownership and management of other similar types of projects that may be competitive with the Project.

LOW INCOME HOUSING TAX CREDITS

Simultaneously with the issuance of the Bonds, the Borrower expects to sell to Hudson Brookwood Terrace LLC, a Delaware limited liability company (the “*Tax Credit Partner*”), or its designee, a 99.99% ownership interest in the Borrower. Pursuant to the sale, the funding of the tax credit equity is expected to total approximately \$7,131,748, with an initial contribution of approximately \$713,155 anticipated to be funded at the Bond closing. The funding levels and the timing of the funding are subject to numerous adjustments and conditions that could result in the amounts funded and/or the timing or even occurrence of the funding varying significantly from the projections set forth above, and neither the Issuer nor the Underwriter makes any representation as to the availability of such funds. Approximately \$4,000,000 of the tax credit equity is expected to be applied to the redemption of Bonds at or prior to Conversion.

THE CITY LOAN

In addition to the proceeds under the Bond Mortgage Loan, the Borrower will secure a deferred payment loan from the Issuer (the “*City Loan*”). See “*PLAN OF FINANCING – SOURCES OF FUNDS.*” The City Loan will have a term of 38 years and will bear interest at a rate of 4% per annum. Interest will be deferred and payable only from surplus cash flow.

THE CONTRACTOR

The Contractor for the Development will be ROEM Builders, Inc., a California corporation (the “*Contractor*”). The Contractor and its affiliated construction companies have been constructing and rehabilitating multifamily rental housing developments since 1999 and have constructed approximately 1,700 units of multifamily residential housing.

THE ARCHITECT

The architect for the Development is KTG Y Group, Inc. (the “*Architect*”). The Architect has been the principal architect for numerous multifamily developments throughout the United States.

PROPERTY MANAGEMENT

The Project will be managed by FPI Management, Inc. (the “*Manager*”). The Manager is one of the largest third-party manager of multifamily real estate in the United States. It currently manages more 50,000 units, including more than 10,000 units of affordable housing.

LIMITED RECOURSE TO BORROWER

The Borrower and its partners will not (subject to certain exceptions to nonrecourse liability set forth in the Freddie Mac Reimbursement Agreement and the Financing Agreement) be personally liable for payments on the Bond Mortgage Note, the payments on which are to be applied to pay the principal of and interest on the Bonds. Furthermore, no representation is made that the Borrower will have substantial funds available for the Project. Accordingly, neither the Borrower’s financial statements nor those of its members and managers are included in this Official Statement.

PLAN OF FINANCING

The total permanent project costs of the Project are estimated by the Borrower to be approximately \$24.1 million, not including interim sources or uses of funds or accrued interest on the Bonds. The permanent sources and uses of funds for the Project reflect a pre-Conversion redemption of Bonds in the amount of approximately \$6 million and are estimated to be as follows:

SOURCES OF FUNDS

Bond Proceeds (1)	\$ 7,430,000
City Loan	6,293,000
Accrued Interest (City Loan)	650,226
Tax Credit Equity	7,128,094
Interest Income (2)	120,490
Income from Operations	332,072
Deferred Developer Fee	2,229,666
Total	\$ 24,183,548

USES OF FUNDS

Hard Construction Costs	\$ 17,035,222
Financing Costs	2,238,433
Operating Reserves	435,342
Developer Fee	2,500,000
Soft Costs	1,974,551
Total	\$ 24,183,548

(1) Reflects a pre-Conversion redemption of Bonds in the amount of approximately \$6 million.

(2) Reflects income on Bond proceeds invested in the Bond Mortgage Loan Fund.

THE SERVICER

After the Conversion Date, the Servicer will perform mortgage servicing functions with respect to the Bond Mortgage Loan pursuant to the Freddie Mac Reimbursement Agreement and related documents on behalf of and in accordance with Freddie Mac requirements. The servicing arrangements between Freddie Mac and the Servicer for the servicing of the Bond Mortgage Loan are solely between Freddie Mac and the Servicer and neither the Issuer nor the Trustee is

deemed to be party thereto or has any claim, right, obligation, duty or liability with respect to the servicing of the Bond Mortgage Loan.

The Servicer will be obligated, pursuant to its arrangement with Freddie Mac and Freddie Mac's servicing requirements, to perform diligently all services and duties specifically prescribed by Freddie Mac. Freddie Mac will monitor the Servicer's performance and has the right to remove the Servicer with or without cause. The duties performed by the Servicer include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts and collection of insurance claims.

The Servicer makes no representation as to the contents of this Official Statement, the suitability of the Bonds for any investor, the feasibility of performance of the Project or compliance with any securities, tax or other laws or regulations. The Servicer's role is limited to originating, processing and servicing the Bond Mortgage Loan pursuant to the Freddie Mac Reimbursement Agreement and the Reimbursement Security Documents.

THE TRUSTEE

The Issuer has appointed Wells Fargo Bank, National Association, a national banking association organized under the laws of the United States, to serve as the initial Trustee. The Trustee is to carry out those duties assignable to it under the Indenture and Bond Documents. The Trustee may be replaced at any time in accordance with the provisions of the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Official Statement or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Issuer of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Issuer or Borrower. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, the technical or financial feasibility of the Project, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

Additional information about the Trustee may be found at its website at <http://www.wellsfargo.com/>. Neither the information on Wells Fargo Bank, National Association's website, nor any links from that website, is a part of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

CERTAIN BONDHOLDERS' RISKS

The purchase of the Bonds will involve a number of risks. In addition to factors set forth elsewhere in this Official Statement, purchasers of Bonds should carefully consider the following risk factors in connection with an investment in the Bonds. The following summary does not purport to be comprehensive or definitive, of some of such risk factors.

FAILURE OF CONVERSION; PRE-CONVERSION LOAN EQUALIZATION

If the principal amount of the Bond Mortgage Loan, as finally determined in accordance with the Construction Phase Financing Agreement will be less than the original principal amount of the Bond Mortgage Loan, the principal amount of the Bond Mortgage Loan must, as a Condition to Conversion, be reduced by the Borrower's prepayment of the Bond Mortgage Loan in part (a "Pre-Conversion Loan Equalization Payment"). Upon such prepayment, a corresponding portion of the principal amount of the Bonds will be subject to mandatory redemption as provided in the Indenture. Any such mandatory redemption, or purchase of Bonds by the Borrower in lieu of such redemption, will be at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date. No such redemption will be made at a premium. If such prepayment in part is required as a Condition to Conversion and is not made, Conversion will not occur and the Bonds will be subject to mandatory redemption or purchase in whole, as described above. See "THE BONDS—Mandatory Redemption" herein. Conversion may not occur for any of a number of reasons, including failure to complete construction or to adequately lease the Project in accordance with the terms of the Forward Commitment.

CREDIT FACILITY AS PRIMARY SECURITY FOR BONDS

During the Variable Period, the primary security for the Bonds will be the Credit Facility delivered to the Trustee in order to pay the principal, interest and tender price for the Bonds and the ratings on the Bonds are based on the Credit Facility and the Rating Agency's assessment of the Credit Facility Provider's ability to make payments required thereunder. See "THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER" and "FREDDIE MAC" herein. Based on this expectation, no financial information as to the creditworthiness of the Borrower or the value of the Project is included herein.

It is possible, in the event of the occurrence of some event precluding the Construction Phase Credit Facility Provider or Freddie Mac from honoring its respective obligations to make payments as required in the Credit Facility, as applicable, that the financial resources of the Borrower will be the only source of payment on the Bonds. There can be no assurance that the financial resources of the Borrower would be sufficient to pay the principal or Purchase Price of, and premium if any, and interest on the Bonds in the event the Trustee were forced to seek recourse against the Borrower. See "ENFORCEABILITY AND BANKRUPTCY" below and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

No review of the business or affairs of the Bank or of Freddie Mac has been conducted by the Issuer, the Borrower or the Underwriter in connection with the offering of Bonds. No assurance can be given by the Issuer, the Borrower or the Underwriter as to the Bank's or Freddie Mac's ability to pay amounts due under the Credit Facility. See "RATINGS," "APPENDIX D – FORM OF LETTER OF CREDIT" and "APPENDIX B – FORM OF CREDIT ENHANCEMENT AGREEMENT" herein.

A purchase of the Bonds is only suitable for sophisticated investors able to analyze the credit of the Bank and Freddie Mac.

NO BORROWER PERSONAL LIABILITY

The Borrower has not been nor will it be (subject to certain exceptions to nonrecourse liability for the benefit of Freddie Mac to be set forth in the Freddie Mac Reimbursement Agreement and the Reimbursement Mortgage) personally liable for payments on the Bond Mortgage Loan, nor will the Borrower be (subject to certain exceptions to nonrecourse liability to be set forth in the Bond Mortgage and subject to certain exceptions to nonrecourse liability set forth in the Financing Agreement with respect to the Issuer and the payment of the rebate amount) personally liable under the other documents executed in connection with the issuance of the Bonds and the making of the Bond Mortgage Loan. All payments on the Bond Mortgage Loan are expected to be derived from revenues generated by the Project.

LIMITED OBLIGATIONS

The Bonds are limited obligations of the Issuer payable solely from certain funds pledged to and held by the Trustee pursuant to the Indenture and the Credit Facility.

FREDDIE MAC'S OBLIGATIONS WITH RESPECT TO THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT ENHANCEMENT AGREEMENT. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT WILL BE OBLIGATIONS SOLELY OF FREDDIE MAC, A SHAREHOLDER-OWNED, GOVERNMENT-SPONSORED ENTERPRISE ORGANIZED UNDER THE LAWS OF THE UNITED STATES OF AMERICA. FREDDIE MAC HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS, BUT WILL BE OBLIGATED, PURSUANT TO THE CREDIT ENHANCEMENT AGREEMENT, TO PROVIDE FUNDS TO THE TRUSTEE TO PAY THE PURCHASE PRICE OF THE BONDS UNDER THE CIRCUMSTANCES DESCRIBED THEREIN. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY THEREOF, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY OUT OF THE REVENUES, RECEIPTS, AND OTHER MONEYS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE STATE, THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE,

THE ISSUER (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. NEITHER THE FAITH AND CREDIT OF THE STATE, THE ISSUER NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR OF INTEREST ON THE BONDS.

No recourse shall be had for the payment of the principal of, or premium, if any, or interest on any of the Bonds, or for any claim based thereon or upon any obligation, covenant or agreement contained therein or in the Indenture, against any past, present or future officer, employee or agent of the Issuer, under any rule of law or equity or statutory or constitutional provision, or by the enforcement of any assessment or penalty or otherwise.

NO ACCELERATION OR EARLY REDEMPTION UPON LOSS OF TAX EXEMPTION ON THE BONDS

The Bonds are not subject to acceleration or redemption, and the rate of interest on the Bonds is not subject to adjustment, by reason of the interest on the Bonds being included in gross income for purposes of federal income taxation. Such event could occur if the Borrower (or any subsequent owners of the Project) does not comply with the provisions of the Financing Agreement and the Regulatory Agreement which are designed, if complied with, to satisfy the continuing compliance requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order for the interest on the Bonds to be excludable from gross income for purposes of federal income tax.

REDEMPTION PRIOR TO MATURITY

Purchasers of Bonds should consider the fact that the Bonds are subject to redemption prior to maturity at a redemption price equal to their principal amount plus accrued interest. This could occur, for example, in the event that the Bond Mortgage Loan is prepaid at the option of the Borrower, or as a result of casualty or condemnation award payments affecting the Project or a default under the Bond Mortgage or under the Freddie Mac Reimbursement Agreement. See "THE BONDS" herein.

ECONOMIC FEASIBILITY

The economic feasibility of the Project depends in large part upon its being substantially occupied at projected rent levels. There can be no assurance that in the future the Borrower will be able to market Project units at rates which will enable it to make timely payments on the Bond Mortgage Loan.

COMPETING FACILITIES

The Issuer, the Borrower, and persons who may or may not be affiliated with the Issuer or the Borrower may own, finance, develop, construct, and operate other facilities in the area of

the Project that could compete with the Project. Any competing facilities, if so constructed, could adversely affect occupancy and revenues of the Project.

ENFORCEABILITY AND BANKRUPTCY

The remedies available to the Trustee and the holders of the Bonds upon an event of default under the Financing Agreement, the Credit Facility, or the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay.

Under existing laws and judicial decisions, the remedies provided under the aforesaid documents may not readily be available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds and the aforesaid documents will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

NORMAL RISKS

Normal risks attending any investment in real estate include possible adverse use of adjoining land, fire or other casualty, condemnation, increased taxes, changes in demand for such facilities, increases in utility rates, adverse general and local economic conditions, energy shortages, a decline in property values in the Project, increases in operating costs due to inflation, non-compliance of tenants with the terms of their leases, unfavorable governmental regulation (such as enactment of rent controls), force majeure and uninsurable risks, construction strikes and decrease in the relative popularity of real estate investments as contrasted with other investments. These risks and many others cannot be controlled by the Borrower and may have a substantial bearing on the profitability and financial feasibility of the Project, and which may affect the realizable value of the real estate and other collateral securing payment of the Bonds.

ENVIRONMENTAL MATTERS

There are potential risks relating to environmental liability associated with the ownership of any property, including the Project. If hazardous substances are found to be located on the Project, the owners of the Project, including the Borrower, may be held liable for costs and other liabilities relating to such hazardous substances. In the event of foreclosure of the Project or active participation in the management of the Project by the Trustee on behalf of the Bondholders, the Trustee (and, indirectly, the Bondholders) may be held liable for costs and other liabilities related to hazardous substances, if any, on the site of the Project on a strict liability basis and such costs may exceed the value of the Project.

MANAGEMENT OF THE PROJECT

The successful operation of the Project will depend, to a large extent, upon the management services provided by the manager of the Project and upon the ability of the Borrower to lease the units, keeping the Project substantially occupied through the term of the Bonds. There is no assurance that the manager will operate the Project on a profitable basis. There can be no assurance that the Project will be operated in a manner which will provide sufficient moneys to pay principal and interest on the Bonds and to operate and maintain the Project.

EFFECT OF INCREASES IN OPERATING EXPENSES

It is impossible to predict future increases in operating expenses. Substantial increases in operating expenses will affect future net operating income of the Project and the ability of the Borrower to meet its debt service obligations, primarily, its reimbursement obligations to the Credit Facility Provider.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, a copy of which is on file with the Trustee.

ESTABLISHMENT OF FUNDS

In addition to the Bond Mortgage Loan Fund (and an Equity Account therein) established pursuant to the Indenture and the Bond Purchase Fund established pursuant to the Indenture, the Trustee shall establish, maintain and hold in trust the following funds and accounts, each of which shall be disbursed and applied only as herein authorized:

- (a) Revenue Fund, and within the Revenue Fund a General Account and a Credit Facility Account;
- (b) Bond Fund, and within the Bond Fund, a Purchased Bonds Account;
- (c) Redemption Fund;
- (d) Administration Fund;
- (e) Cost of Issuance Fund, and within the Cost of Issuance Fund, a Bond Proceeds Account and an Equity Account;
- (f) Principal Reserve Fund; and

(g) Rebate Fund.

The funds and accounts established pursuant to the Indenture shall be maintained in the corporate trust department of the Trustee as segregated trust accounts, separate and identifiable from all others held by the Trustee. The funds and accounts established under the Indenture shall bear a designation clearly indicating that the funds deposited therein are held for the benefit of (i) the Holders of the Bonds respecting the Revenue Fund, the Bond Fund and the Redemption Fund, (ii) the Credit Facility Provider respecting the Principal Reserve Fund, and (iii) the Borrower respecting the Administration Fund, Cost of Issuance Fund and the Rebate Fund. The Trustee shall, at the written direction of an authorized representative of the Issuer, and may, in its discretion, establish such additional Accounts within any Fund, and Subaccounts within any of the Accounts, as the Issuer or the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from that Fund and its Accounts, or for the purpose of complying with the requirements of the Code relating to arbitrage, but the establishment of any such Account or Subaccount shall not alter or modify any of the requirements of the Indenture with respect to a deposit or use of money in the funds established under the Indenture or result in commingling of funds not permitted under the Indenture.

BOND MORTGAGE LOAN FUND

On the Delivery Date, the Trustee shall receive the proceeds of the sale of the Bonds and shall deposit a portion of such proceeds into the Bond Proceeds Account of the Mortgage Loan Fund as provided in the Indenture. In addition, on the Delivery Date, the Trustee shall deposit funds received from the Borrower into the Equity Account of the Bond Mortgage Loan Fund as provided in the Indenture. On or prior to the Conversion Date, the Trustee shall deposit to the Equity Account in the Bond Mortgage Loan Fund any and all payments received from the counterparty under the Hedge Agreement.

Disbursements. Amounts on deposit in the Bond Proceeds Account of the Bond Mortgage Loan Fund shall be disbursed from time to time by the Trustee in accordance with the Indenture, for the purpose of paying Costs of the Project that are approved by the Construction Phase Credit Facility Provider pursuant to the terms, conditions and provisions of the Construction Phase Credit Documents. In addition, amounts in the Bond Proceeds Account may be used to pay the Purchase Price of Bonds or to reimburse the Credit Facility Provider for the same or for transfer to the Redemption Fund and the Rebate Fund pursuant to the Indenture.

The Trustee shall make disbursements from the Bond Proceeds Account of the Bond Mortgage Loan Fund for purposes described in the Indenture only upon the receipt of Requisitions, each in the form prescribed by the Indenture, signed in all cases by an Authorized Borrower Representative and countersigned by an Authorized Officer of the Construction Phase Credit Facility Provider (signifying the approval of the Requisition by the Construction Phase Credit Facility Provider); *provided, however,* that amounts necessary to reimburse the

Construction Phase Credit Facility Provider for draws on the Letter of Credit to pay interest on the Bonds prior to the date on which the Project is placed in service shall be paid from the Bond Proceeds Account automatically without need of Requisition or written direction. The Borrower will provide written notice to the Trustee and the Issuer of the date on which the Project is placed in service. The Trustee shall have no duty to determine whether any requested disbursement from the Bond Proceeds Account of the Bond Mortgage Loan Fund complies with the terms, conditions and provisions of the Construction Phase Credit Documents. The countersignature of the Authorized Officer of the Construction Phase Credit Facility Provider on a Requisition shall be deemed a certification and, insofar as the Trustee is concerned, constitute conclusive evidence that all of the terms, conditions and requirements of the Construction Phase Credit Documents applicable to such disbursement have been fully satisfied or waived. The Trustee shall, immediately upon each receipt of a completed Requisition signed by an Authorized Borrower Representative and countersigned by an Authorized Officer of the Construction Phase Credit Facility Provider, initiate procedures with the provider of a Qualified Investment to make withdrawals as necessary to fund the Requisition.

If a Requisition signed by the Authorized Owner Representative and countersigned by an Authorized Bank Representative is received by the Trustee, the requested disbursement shall be paid by the Trustee as soon as practicable, but in no event later than five Business Days following receipt thereof by the Trustee. Upon final disbursement of all amounts on deposit in the Bond Mortgage Loan Fund, the Trustee shall close the Bond Mortgage Loan Fund.

Notwithstanding anything to the contrary contained herein:

(i) no signature of an Authorized Borrower Representative shall be required during any period in which a default has occurred and is then continuing under the Bond Documents or the Construction Phase Credit Documents (notice of which default has been given in writing by an Authorized Officer of the Construction Phase Credit Facility Provider to the Trustee and the Issuer, and the Trustee shall be entitled to conclusively rely on any such written notice as to the occurrence and continuation of such a default); and

(ii) during the continuance of such default under the Bond Documents or the Construction Phase Credit Documents the Trustee shall disburse amounts in the Bond Proceeds Account of the Bond Mortgage Loan Fund upon receipt of a Requisition signed only by the Construction Phase Credit Facility Provider (and without any need for any signature by an Authorized Borrower Representative), with notice to the Borrower and the Issuer, so long as the amount to be disbursed is to be used solely to make payments of fees due under the Construction Phase Credit Documents.

Immediately prior to (a) any mandatory redemption of Bonds pursuant to the Indenture or (b) any mandatory redemption of Bonds in whole pursuant to the Indenture, any amounts then remaining in the Bond Proceeds Account or the Equity Account of the Bond Mortgage Loan

Fund shall, at the written direction of the Credit Facility Provider, be transferred to the Redemption Fund to be applied to the redemption of Bonds pursuant to the Indenture.

Any amounts remaining on deposit in the Bond Proceeds Account of the Bond Mortgage Loan Fund upon the earlier of (a) the Conversion Date or (b) the expiration date of the Letter of Credit, and not required to pay Costs of the Project not yet due and payable or being contested in good faith, in each case determined in accordance with the Construction Phase Credit Documents, shall be transferred to the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture.

Amounts on deposit in the Bond Mortgage Loan Fund shall be invested as provided in the Indenture. All Investment Income earned on amounts on deposit in the Bond Mortgage Loan Fund shall be retained in and credited to and become a part of the amounts on deposit in each of the Bond Proceeds Account and the Equity Account of the Bond Mortgage Loan Fund.

Up to and including the Conversion Date, the Trustee shall disburse amounts held in the Equity Account of the Bond Mortgage Loan Fund automatically without need of Requisitions or written direction (except as provided in the Indenture to (i) pay the Construction Phase Credit Facility Fee so long as the Construction Phase Credit Facility is outstanding, (ii) reimburse the Construction Phase Credit Facility Provider for draws under the Letter of Credit to pay interest on the Bonds, to the extent there are insufficient funds in the Bond Proceeds Account for such reimbursement or for any time period following the date the Project is placed in service, (iii) make payments due and owing to the counterparty by the Borrower under the Hedge Agreement; (iv) timely pay the Issuer Fee, the Ordinary Trustee's Fees and Expenses, the fees of the Remarketing Agent (excluding any increase in the Remarketing Agent's fee due to failure to timely replace a resigning Remarketing Agent), (v) pay any Rating Agency fees due and owing and (vi) otherwise as directed in writing by an Authorized Officer of the Construction Phase Credit Facility Provider. On the Conversion Date, to the extent not applied for the purposes set forth in the Indenture, funds remaining in the Equity Account shall be transferred to the Borrower or its designee.

APPLICATION OF REVENUES

All Revenues (other than amounts paid under the Credit Facility which shall be deposited in the Credit Facility Account of the Revenue Fund or received as Principal Reserve Schedule Payments which shall be deposited in the Principal Reserve Fund) shall be deposited by the Trustee, promptly upon receipt thereof, to the General Account of the Revenue Fund, except (i) the proceeds of the Bonds received by the Trustee on the Delivery Date, which shall be applied in accordance with the applicable provisions of the Indenture; (ii) the Bond Fee Component shall be deposited to the Administration Fund; (iii) as otherwise specifically provided in the Indenture with respect to certain deposits into the Redemption Fund; (iv) as otherwise specifically provided in the Indenture with respect to deficiencies in the Administration Fund; (v) with respect to investment earnings to the extent required under the

terms of the Indenture to be retained in the funds and accounts to which they are attributable; and (vi) with respect to amounts required to be transferred between funds and accounts as provided in the Indenture. Except as set forth in the Indenture, all investment income earned on amounts on deposit in the Bond Mortgage Loan Fund shall be retained therein and credited to and become a part of the amounts on deposit in each of the Bond Proceeds Account and the Equity Account of the Bond Mortgage Loan Fund.

On each Interest Payment Date or any other date on which payment of principal of or interest on the Bonds becomes due and payable, the Trustee, out of money in the Credit Facility Account and the General Account of the Revenue Fund, shall credit the following amounts to the following funds, but in the order and within the limitations indicated in the Indenture with respect thereto, as follows:

FIRST: To the Bond Fund from money, if any, in the Credit Facility Account of the Revenue Fund, an amount equal to the principal of and interest due on the Bonds on such date (excluding principal of or interest on any Purchased Bonds and excluding the principal constituting a mandatory sinking fund redemption payment on any Bonds on such Interest Payment Date); and

SECOND: to the Bond Fund from money in the Credit Facility Account of the Revenue Fund, an amount equal to the principal amount due and payable on the Bonds with respect to mandatory sinking fund redemption (excluding principal of any Purchased Bonds) on such date; and

THIRD: To the Redemption Fund from money in the Credit Facility Account (i) amounts paid to the Trustee under the Credit Facility to be applied to the mandatory redemption of all or a portion of the Bonds pursuant to the Indenture (other than a mandatory sinking fund redemption) and (ii) amounts paid to the Trustee under the Credit Facility to be applied to the optional redemption of all or a portion of the Bonds pursuant to the Indenture; and

FOURTH: To the Purchased Bonds Account in the Bond Fund from moneys in the General Account, an amount equal to the interest due on the Purchased Bonds on such Interest Payment Date.

Immediately upon receipt, the Trustee shall deposit directly to the Redemption Fund (i) Net Proceeds representing casualty insurance proceeds or condemnation awards paid as a prepayment of the Bond Mortgage Loan to the extent the same will be applied to costs of reconstruction, such amount to be applied to reimburse the Credit Facility Provider for a draw under the Credit Facility in such amount to provide for extraordinary mandatory redemption of all or a portion of the Bonds pursuant to the Indenture; (ii) Eligible Funds (other than draws under the Credit Facility) paid to the Trustee to be applied to the optional redemption of all or a portion of the Bonds pursuant to the Indenture; and (iii) amounts transferred to the Redemption Fund from the Bond Mortgage Loan Fund pursuant to the Indenture.

Immediately upon receipt, the Trustee shall deposit directly to the Principal Reserve Fund all Principal Reserve Schedule Payments received from the Servicer (from and after Conversion) or the Borrower.

Immediately upon receipt, the Trustee shall deposit directly to the Administration Fund the Bond Fee Component received from the Servicer (from and after the Conversion Date) or the Borrower.

Should the amount in the Bond Fund or the Redemption Fund, as applicable, be insufficient to pay the amount due on the Bonds on any given Interest Payment Date or other payment date after the transfers from the Credit Facility Account, the Trustee shall credit to the Bond Fund the amount of such deficiency by charging the following funds and accounts in the following order of priority: (1) the General Account of the Revenue Fund; (2) the Administration Fund; (3) the Redemption Fund, except no such charge to the Redemption Fund shall be made from moneys to be used to effect a redemption for which notice of redemption has been provided for or from moneys which are held for payment of Bonds which are no longer Outstanding under the Indenture; (4) the Principal Reserve Fund.

Immediately upon receipt, the Trustee shall deposit directly to the Administration Fund the amount of any deficiency required to be paid by the Borrower pursuant to the Financing Agreement.

APPLICATION OF BOND FUND

The Trustee shall charge the Bond Fund, on each Interest Payment Date, an amount equal to the unpaid interest and principal due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of such interest and principal when due (excluding principal on any Purchased Bond). Any money remaining in the Bond Fund on any Interest Payment Date after application as provided in the preceding sentence may, to the extent there shall exist any deficiency in the Redemption Fund to redeem Bonds called for mandatory sinking fund redemption on such Interest Payment Date, be transferred to the Redemption Fund to be applied for such purpose.

Income realized from the investment or deposit of money in the Bond Fund shall be deposited by the Trustee upon receipt thereof in the General Account of the Revenue Fund.

No amount shall be charged against the Bond Fund except as expressly provided in the Indenture.

REDEMPTION FUND

Any moneys credited to the Redemption Fund and not otherwise restricted shall be applied: first, to reimburse the Credit Facility Provider to the extent of any draw made under the

Credit Facility for redemption of the Bonds pursuant to the provisions of the Indenture; second, to pay the redemption price of Bonds called for redemption pursuant to the Indenture; and third, to make up any deficiency in the Bonds Fund on any Interest Payment Date, to the extent moneys then available in accordance with the Indenture in the General Account of the Revenue Fund and the Administration Fund are insufficient to make up such deficiency, provided that no moneys to be used to effect a redemption for which a conditional notice of redemption the conditions of which have been satisfied, or an unconditional notice of redemption has been provided or moneys which are held for payment of Bonds which are no longer Outstanding under the Indenture shall be so transferred to the Bond Fund.

On or before each Interest Payment Date, the income realized from the investment of moneys in the Redemption Fund shall be credited by the Trustee to the General Account of the Revenue Fund.

No amount shall be charged against the Redemption Fund except as expressly provided in the Indenture.

ADMINISTRATION FUND

Prior to the Conversion Date, amounts on deposit in the Administration Fund shall be applied on each Interest Payment Date as follows: first, to the payment of accrued fees that are included in the Bond Fee Component that are due and payable; second, to the Construction Phase Credit Facility Provider any fees due and payable under the Construction Phase Credit Reimbursement Agreement; third, to the Remarketing Agent any fees due and payable that are not included within the Bond Fee Component; and fourth, to the Issuer or the Trustee any Extraordinary Administrative Expenses.

On and after the Conversion Date, amounts in the Administration Fund shall be withdrawn or maintained, as appropriate, by the Trustee and used FIRST, in accordance with the Indenture, to make up any deficiency in the Bond Fund on any Interest Payment Date, to the extent moneys then available in the General Account of the Revenue Fund are insufficient to make up such deficiency; SECOND, to pay to the Trustee when due the Ordinary Trustee's Fees and Expenses; THIRD, to pay to the Issuer when due the Issuer Fee; FOURTH, to pay the reasonable fees and expenses of a Rebate Analyst when due in connection with the computations relating to arbitrage rebate required under the Indenture and the Financing Agreement, upon receipt of an invoice from the Rebate Analyst; FIFTH, to deposit to any Custodial Escrow Account any deficiency in the amount held therein as certified in writing by the Servicer (or subsequent holder of the account) to the Trustee; SIXTH, to pay to the Remarketing Agent any unpaid portion of the Remarketing Agent fee that is included within the Bond Fee Component owed to it upon receipt of invoices by the Trustee; SEVENTH, to pay to the Trustee any Extraordinary Trustee's Fees and Expenses due and payable from time to time, as set forth in an invoice submitted to the Issuer, the Borrower and the Credit Facility Provider; EIGHTH, to pay to the Issuer any extraordinary expenses it may incur in connection with the Bonds, the Indenture

or any Bond Mortgage Loan Document from time to time, as set forth in an invoice submitted to the Trustee and Freddie Mac, including but not limited to Extraordinary Administrative Expenses; NINTH, to pay to the Credit Facility Provider any unpaid portion of the amounts due under the Reimbursement Agreement, as certified in writing by the Credit Facility Provider to the Trustee; TENTH, to pay to the Servicer any unpaid portion of the Ordinary Servicing Fees and Expenses and any Extraordinary Servicing Fees and Expenses due and owing from time to time, as set forth in an invoice submitted to the Trustee and Freddie Mac; ELEVENTH, to make up any deficiency in the Redemption Fund on any redemption date of Bonds, to the extent moneys then available in accordance with the Indenture in the Redemption Fund are insufficient to redeem Bonds called for redemption on such redemption date; TWELFTH, to pay to the Rating Agency when due the annual rating maintenance fee, if any, upon receipt of invoices by the Trustee; THIRTEENTH, to pay to the Remarketing Agent any unpaid fee owed to it upon receipt of invoices by the Trustee; and FOURTEENTH, to transfer any remaining balance after application as aforesaid to the General Account of the Revenue Fund.

In the event that the amounts on deposit in the Administration Fund are not equal to the amounts payable from the Administration Fund as described in the preceding paragraph on any date on which such amounts are due and payable, the Trustee shall give notice to the Borrower of such deficiency and of the amount of such deficiency and request payment within two (2) Business Days to the Trustee of the amount of such deficiency. Upon payment by the Borrower of such deficiency, the amounts for which such deficiency was requested shall be paid by the Trustee.

On or before each Interest Payment Date, the income realized from the investment of moneys in the Administration Fund shall be retained in and credited to and become a part of the amounts on deposit in the Administration Fund.

No amount shall be charged against the Administration Fund except as expressly provided in the Indenture.

PRINCIPAL RESERVE FUND

There shall be deposited into the Principal Reserve Fund that portion of the monthly payments made by the Borrower in accordance with the Principal Reserve Schedule and designated for deposit to the Principal Reserve Fund as required by the Reimbursement Agreement. Any interest earned on or profits realized from amounts on deposit in the Principal Reserve Fund shall be deposited into the Principal Reserve Fund and, provided that, to the Trustee's actual knowledge, there is no deficiency in the Principal Reserve Fund, the Administration Fund or the Rebate Fund, and that no Event of Default exists under any of the Bond Documents, such interest or profits shall be paid to the Borrower on the Interest Payment Date next succeeding receipt of such interest or profits by the Trustee. In addition, remarketing proceeds relating to Purchased Bonds shall be deposited in the Principal Reserve Fund and used

to reimburse the Credit Facility Provider in an amount equal to the amount of any Liquidity Advance paid to the Trustee to purchase Bonds on any Settlement Date.

At the direction of the Credit Facility Provider after the Conversion, amounts on deposit in the Principal Reserve Fund shall be used by the Trustee to pay any amounts required to be paid by the Borrower under any of the Bond Mortgage Loan Documents or the Reimbursement Agreement, including without limitation any amounts required to be paid to Freddie Mac or to pay any other sum as directed in writing by Freddie Mac.

From and after the Conversion Date, on each Reset Adjustment Date, Variable Rate Adjustment Date and on the Fixed Rate Adjustment Date, amounts on deposit in the Principal Reserve Fund shall be used to reimburse the Credit Facility Provider in an amount equal to any Guaranteed Payment made by the Credit Facility Provider to the Trustee under the Credit Facility to redeem Bonds in Authorized Denominations pursuant to the Indenture.

From and after the Conversion Date, on the first day of the month in which an Interest Payment Date falls during a Reset Period or a Fixed Rate Period, amounts on deposit in the Principal Reserve Fund shall be used to reimburse the Credit Facility Provider in an amount equal to any Guaranteed Payment made by the Credit Facility Provider to the Trustee under the Credit Facility to redeem Bonds in Authorized Denominations pursuant to the Indenture.

From and after the Conversion Date, on any Interest Payment Date, to the extent of any deficiency in the Bond Fund, to the extent moneys then available in accordance with the Indenture in the General Account of the Revenue Fund, the Administration Fund and the Redemption Fund are insufficient to make up such deficiency, at the direction of the Credit Facility Provider, amounts on deposit in the Principal Reserve Fund shall be transferred to the Bond Fund in the amount of such deficiency.

Any amounts remaining in the Principal Reserve Fund after payment in full of the principal of and interest on the Bonds shall be applied as provided in the Indenture.

INVESTMENT OF FUNDS

The moneys held by the Trustee shall constitute trust funds for the purposes thereof. Any moneys attributable to each of the funds and accounts under the Indenture shall be invested by the Trustee, at the written direction of the Borrower, and, during such time that the Credit Enhancement Agreement is the Credit Facility, subject to the Credit Enhancement Agreement, at least 2 Business Days prior to the date of investment, in Qualified Investments which mature on the earlier of (i) six months from the date of investment and (ii) the date such money is needed; provided, that if the Trustee shall have entered into any investment agreement requiring investment of money in any fund or account under the Indenture in accordance with such investment agreement and if such investment agreement constitutes a Qualified Investment, such money shall be invested in accordance with such requirements; *provided, further*, that all funds

derived from draws on the Credit Facility shall be held uninvested or shall be invested only in Government Obligations or in Qualified Investments of the type described in subparagraph (g) of the definition thereof which, in any case, shall mature or be subject to tender or redemption at par on or prior to the earlier of (i) 30 days from the date of investment or (ii) the date such money is required to be applied pursuant to the provisions of the Indenture. Except as otherwise provided in the preceding sentence, in the absence of the written direction of the Borrower, the Trustee shall invest amounts on deposits in the funds and accounts established under the Indenture in investments described in subparagraph (g) of the definition of Qualified Investments. Such investments may be made through the investment or securities department of the Trustee. All such Qualified Investments purchased with money in any fund or account under the Indenture shall mature, or shall be subject to redemption or withdrawal without discount or penalty at the option of the Trustee, prior to the next succeeding Interest Payment Date. The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, securities authorized in the Indenture. If the Trustee does not receive instructions, it shall invest funds in Qualified Investments described in subparagraph (g) of the definition thereof. Any instruction from the Borrower shall be deemed to include a representation that the investment constitutes a Qualified Investment and is in accordance with the terms of the Indenture and the Tax Certificate.

Amounts on deposit in the Principal Reserve Fund shall be invested and reinvested by the Trustee as provided in the Freddie Mac Reimbursement Agreement (or as otherwise agreed to by Freddie Mac) with all such investments attributable to and deemed at all times to be a part of the Principal Reserve Fund.

Qualified Investments representing an investment of money attributable to any fund or account shall be deemed at all times to be a part of said fund or account, and, except as otherwise may be provided expressly in the Indenture, the interest thereon and any profit arising on the sale thereof shall be credited to the General Account of the Revenue Fund, and any loss resulting on the sale thereof shall be charged against General Account of the Revenue Fund. Such investments shall be sold at the best price obtainable (at least par) whenever it shall be necessary so to do in order to provide money to make any transfer, withdrawal, payment or disbursement from said fund or account. In the case of any required transfer of moneys to another such fund or account, such investments may be transferred to that fund or account in lieu of the required moneys if permitted under the Indenture as an investment of money in that fund or account.

The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the Indenture.

In computing for any purpose under the Indenture the amount in any fund or account on any date, obligations so purchased shall be valued at the lower of cost or par, exclusive of accrued interest.

REBATE FUND; COMPLIANCE WITH TAX CERTIFICATE

The Rebate Fund shall be established by the Trustee and held and applied as described in the Indenture. On any date on which any amounts are required by applicable federal tax law to be rebated to the federal government, amounts shall be deposited into the Rebate Fund by the Borrower for such purpose. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy any amounts which are required by applicable federal tax law to be rebated to the federal government as follows:

The Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Trustee by the Borrower for deposit thereto and each amount directed by the Borrower to be transferred thereto.

Within five days of each receipt or transfer of funds to the Rebate Fund in accordance with the Financing Agreement, the Trustee shall withdraw from the Rebate Fund and pay to the United States of America the entire balance of the Rebate Fund.

Within five days after receipt from the Borrower of any amount pursuant to the Financing Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

The Trustee may conclusively rely on the instructions of the Borrower with regard to any actions to be taken under the provisions of the Indenture described above and the Tax Certificate and shall have no liability for any consequences of any failure of the Borrower to perform its duties or obligations or to supply accurate or sufficient instructions. Except as specifically provided in the preceding two paragraphs, the Trustee shall have no duty or responsibility with respect to the Rebate Fund or the Borrower's duties and responsibilities with respect thereto except to follow the Borrower's specific written instructions related thereto.

Moneys and securities held by the Trustee in the Rebate Fund shall not be deemed funds of the Issuer and are not pledged or otherwise subject to any security interest in favor of the Bondholders to secure the Bonds or any other obligations.

Moneys in the Rebate Fund may be separately invested and reinvested by the Trustee, at the request of and as directed in writing by the Borrower, in Qualified Investments, subject to the Code. The Trustee shall sell and reduce to cash a sufficient amount of such Qualified Investments whenever the cash balance in the Rebate Fund is insufficient for its purposes.

Notwithstanding anything to the contrary in the Indenture, no payment shall be made by the Trustee to the United States if the Borrower shall furnish an opinion of Bond Counsel to the Trustee and the Issuer to the effect that such payment is not required under Section 148(d) and (f) of the Code in order to maintain the exclusion from gross income of interest on the Bonds. In such event the Borrower shall be entitled to withdraw funds from the Rebate Fund to the extent

an opinion of Bond Counsel is provided to the Trustee and the Issuer that such withdrawal will not adversely affect the exclusion from gross income of interest on the Bonds.

COST OF ISSUANCE FUND

The Trustee shall use moneys on deposit to the credit of the Cost of Issuance Fund to pay the costs of issuance on the Delivery Date or as soon as practicable thereafter in accordance with written instructions to be given to the Trustee by the Issuer, upon delivery to the Trustee of appropriate invoices for such expenses and a requisition in the form prescribed by the Indenture. Amounts remaining on deposit in the Cost of Issuance Fund six (6) months after the Delivery Date shall be transferred to the Borrower. Upon such final disbursement, the Trustee shall close the Cost of Issuance Fund.

PAYMENTS UNDER BOND MORTGAGE LOAN

The Trustee and the Issuer have expressly acknowledged that references in the Indenture to payments or prepayments of the Bond Mortgage Loan shall, for all purposes of the Indenture, refer solely to such portion of such payments or prepayments actually paid by the Credit Facility Provider to the Trustee as Guaranteed Payments pursuant to the Credit Facility. Without in any way limiting the foregoing, the Trustee and the Issuer have acknowledged that from and after the Conversion Date, pursuant to the Guide, the Servicer will pay the Freddie Mac Credit Enhancement Fee, the Freddie Mac Reimbursement Amount and the Ordinary Servicing Fees and Expenses from payments under the Bond Mortgage Loan made by the Borrower prior to remitting the balance of such payments or prepayments to the Trustee for application as provided in the Indenture.

DRAWINGS UNDER CREDIT FACILITY

The Credit Facility shall be held by the Trustee and drawn upon in accordance with its terms and the provisions of the Indenture. Money derived from draws upon the Credit Facility shall be deposited in the Credit Facility Account of the Revenue Fund and applied by the Trustee to pay the principal of and interest on the Bonds, and, in the event of a purchase of the Bonds, to pay, to the extent provided in the Credit Facility, the Purchase Price of the Bonds in accordance with the Indenture.

The Trustee shall draw moneys under the Credit Facility in accordance with the terms thereof in an amount sufficient to make timely payments of the principal of and interest, but not premium, on the Bonds when due and payable (*i.e.* on Interest Payment Dates, at Bond maturity or upon the redemption or acceleration of the maturity of the Bonds).

While the Bonds are bearing interest at the Variable Rate, should any Variable Interest Computation Date fall between the date of the draw on the Credit Facility and the next Interest Payment Date on the Bonds, the Trustee shall assume that the Bonds will bear interest at the

Maximum Rate from such Variable Interest Computation Date to the next Interest Payment Date and shall draw on the Credit Facility accordingly. In the event that the Maximum Rate exceeds the actual interest rate during such period, the excess interest shall be immediately returned to the Credit Facility Provider.

Should the Credit Facility Provider become the owner of the Project by foreclosure or otherwise, the Trustee shall nevertheless continue to make payments on the Bonds only from draws on the Credit Facility or from other Eligible Funds.

EVENTS OF DEFAULT; ACCELERATION; REMEDIES

Each of the following shall be an event of default with respect to the Bonds (an “*Event of Default*”) under the Indenture:

(a) failure to pay the principal or Purchase Price of, premium, if any, or interest on any Bond (other than Purchased Bonds) when due, whether, at the stated maturity thereof, or on proceedings for redemption thereof, or on the maturity thereof by declaration; or

(b) failure by the Credit Facility Provider to make when due a required payment under the Credit Facility; or

(c) failure to observe or perform any of the other covenants, agreements or conditions on the part of the Issuer (other than certain covenants set forth in the Indenture) set forth in the Indenture or in the Bonds and the continuance thereof for a period of thirty (30) days after written notice to the Issuer from the Trustee or the Holders of more than 51% of the principal amount of the Bonds then Outstanding at such time specifying such default and requiring the same to be remedied; *provided*, that the Credit Facility Provider shall have directed in writing that the same shall have constituted an Event of Default.

The Trustee and the Issuer have agreed that, notwithstanding the provisions in the Indenture, no default under the terms of the Indenture shall be construed as resulting in a default under the Bond Mortgage Note, the Bond Mortgage, the Reimbursement Mortgage or any other Bond Mortgage Loan Document, unless such event also constitutes a default under the Indenture.

Upon the occurrence of an Event of Default as described in paragraph (a) above, the Trustee shall, but so long as no Event of Default has occurred and is then continuing as described in paragraph (b) above, only upon receipt from the Credit Facility Provider of a notice directing such acceleration (which notice may be given in the sole discretion of the Credit Facility Provider), by notice in writing delivered to the Issuer, declare the principal of all Bonds then

Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

Upon the occurrence of an Event of Default as described in paragraph (c) above, the Trustee may, but so long as no Event of Default has occurred and is then continuing as described in paragraph (b) above, only upon receipt of the written consent of the Credit Facility Provider (which consent may be given in the sole discretion of the Credit Facility Provider), by notice in writing delivered to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

Upon the occurrence of an Event of Default described in paragraph (b) above, the Trustee may, and upon the written request of the Holders of more than 51% of the principal amount of the Bonds then Outstanding and receipt of indemnity satisfactory to it shall, by notice in writing delivered to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

The payment on the Bonds resulting from a declaration of acceleration on the Bonds as the result of an Event of Default described in paragraph (a) or (c) above shall be made from the Credit Facility.

If at any time after the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Issuer, the Borrower or the Credit Facility Provider, as applicable, shall pay to or deposit with the Trustee a sum sufficient to pay all principal of the Bonds then due (other than solely by reason of such declaration) and all unpaid installments of interest (if any) upon all the Bonds then due, with interest at the rate borne by the Bonds on such overdue principal and (to the extent legally enforceable) on such overdue installments of interest, and the reasonable fees and expenses of the Trustee shall have been made good or cured or adequate provision shall have been made therefor, and all outstanding amounts then due and unpaid under the Reimbursement Agreement (including, without limitation, with respect to the Credit Facility Provider all outstanding amounts owed to the Credit Facility Provider and all fees owed to the Credit Facility Provider) (collectively, the "*Cure Amount*") shall have been paid in full, and all other defaults under the Indenture shall have been made good or cured or waived in writing by the Credit Facility Provider (or, if an Event of Default described under paragraph (b) above has occurred and is then continuing, by the Holders of more than 51% of the principal amount of the Bonds then Outstanding), then and in every case, the Trustee on behalf of the Holders of all the Outstanding Bonds shall rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, nor shall it impair or exhaust any right or power consequent thereon. Notwithstanding the foregoing provisions of this paragraph, in the event the Cure Amount is derived in whole or in part from a draw on the Credit Facility, any such rescission or annulment of such declaration of acceleration shall not occur without the consent of the Credit Facility Provider.

Upon the happening and continuance of an Event of Default, the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Holders of all Bonds with respect to which such an Event of Default has occurred and of the Credit Facility Provider (if no Event of Default has occurred and is continuing under paragraph (b) above), may also proceed to protect and enforce any rights of the Trustee and, to the full extent that the Holders of such Bonds themselves might do, the rights of such Bondholders under the laws of the State or under the Indenture by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights; provided that, so long as no Event of Default has occurred and is then continuing under paragraph (b) above, the Trustee may undertake any such remedy only upon the receipt of the prior written consent of the Credit Facility Provider (which consent may be given in the sole discretion of the Credit Facility Provider):

(i) by mandamus or other suit, action or proceeding at law or in equity, to enforce the payment of the principal of, premium, if any, or interest on the Bonds then Outstanding, or for the specific performance of any covenant or agreement in the Indenture, the Credit Facility, the Financing Agreement or the Regulatory Agreement, or to require the Issuer to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(ii) by pursuing any available remedies under the Financing Agreement, the Regulatory Agreement or the Credit Facility;

(iii) by realizing or causing to be realized through sale or otherwise upon the security pledged under the Indenture; and

(iv) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Holders of the Bonds and execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Bondholders against the Issuer allowed in any bankruptcy or other proceeding.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee, the Credit Facility Provider or the Bondholders under the Indenture or under the Financing Agreement, the Regulatory Agreement, the Credit Facility or the Reimbursement Agreement, as applicable, or now or thereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default under the Indenture, whether by the Trustee, the Credit Facility Provider or the Bondholders, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereto.

In all events the rights of the Trustee to exercise remedies under the Indenture upon the occurrence of an Event of Default shall be subject to the provisions of the Intercreditor Agreement.

RIGHTS OF BONDHOLDERS

If an Event of Default under paragraph (b) under “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above shall have occurred and is then continuing, and if requested in writing so to do by the Holders of more than 51% of the principal amount of the Bonds then Outstanding with respect to which there is a default, and if indemnified to its satisfaction, the Trustee shall exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interest of the affected Bondholders. If an Event of Default under paragraph (b) under “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above shall have occurred and is then continuing, the Holders of more than 51% of the principal amount of the Bonds then Outstanding with respect to which an Event of Default has occurred shall have the right at any time, subject to the provisions of the Indenture, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture, in accordance with the provisions of law and of the Indenture.

WAIVER BY ISSUER

Upon the occurrence of an Event of Default, to the extent that such right may then lawfully be waived, neither the Issuer nor anyone claiming through or under it shall set up, claim or seek to take advantage of any appraisal, valuation, stay, extension or redemption laws now or hereinafter in force, in order to prevent or hinder the enforcement of the Indenture; and the Issuer, for itself and all who may claim through or under it, has waived under the Indenture, to the extent that it lawfully may do so, the benefit of all such laws and all right of appraisal and redemption to which it may be entitled under the laws of the State and the United States.

APPLICATION OF MONEY AFTER DEFAULT

All moneys (other than amounts drawn from the Credit Facility in accordance with the Indenture) collected by the Trustee at any time pursuant to the Indenture shall, except to the extent, if any, otherwise directed by a court of competent jurisdiction, be credited by the Trustee to the General Account of the Revenue Fund. Such money so credited to the General Account of the Revenue Fund and all other money from time to time credited to the General Account of the Revenue Fund shall at all times be held, transferred, withdrawn and applied as prescribed by the provisions of the Indenture.

In the event that at any time the money credited to the Revenue Fund, the Bond Fund, the Redemption Fund, the Administration Fund and the Principal Reserve Fund available for the

payment of interest or principal then due with respect to the Bonds shall be insufficient for such payment, such money (other than money held for the payment or redemption of particular Bonds as provided in the Indenture and amounts drawn from the Credit Facility under the Indenture) shall be applied as follows and in the following order of priority:

(a) For payment of all amounts due to the Trustee incurred in performance of its duties under the Indenture, including, without limitation, the payment of all reasonable fees and expenses of the Trustee incurred in exercising any remedies under the Indenture.

(b) So long as no Event of Default described in paragraph (b) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above has occurred and is then continuing for the payment to the Credit Facility Provider of all amounts then due and unpaid under the Reimbursement Agreement (including, without limitation, with respect to Freddie Mac, all Freddie Mac Credit Enhancement Fees and Freddie Mac Reimbursement Amounts).

(c) Unless the principal of all Bonds shall have become or have been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the persons entitled thereto of the unpaid principal of and premium, if any (which payment of premium shall not be restricted to Eligible Funds), on any Bonds which shall have become due, whether at maturity or by call for redemption, in the order in which they became due and payable, and, if the amount available is not sufficient to pay in full all the principal of and premium, if any, on the Bonds so due on any date, then to the payment of principal ratably, according to the amounts due on such date, to the persons entitled thereto, without any discrimination or preference, and then to the payment of any premium due on the Bonds, ratably, according to the amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

(d) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal of, premium, if any (which payment of premium shall not be restricted to Eligible Funds), 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, premium and interest, to the persons entitled thereto without

any discrimination or preference except as to any differences in the respective rates of interest specified in the Bonds.

(e) If an Event of Default described in paragraph (b) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above has occurred and is then continuing, for the payment to the Credit Facility Provider of all amounts then due and unpaid under the Reimbursement Agreement to the date of such Event of Default.

RIGHTS OF THE CREDIT FACILITY PROVIDER

If an Event of Default described in paragraph (a) or (c) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above under shall have occurred and so long as no Event of Default has occurred and is then continuing as described under paragraph (b) under the caption “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above, upon receipt of the written direction of the Credit Facility Provider (which direction may be given in the sole discretion of the Credit Facility Provider), the Trustee shall be obligated to exercise any right or power conferred by the remedial provisions of the Indenture in the manner set forth in such written direction of the Credit Facility Provider. If such written direction expressly states that the Trustee may exercise one or more of the rights and powers conferred in the provision therein described as the Trustee shall deem to be in the interest of the Bondholders and the Credit Facility Provider, the Trustee shall exercise one or more of such rights and powers as the Trustee shall deem to be in the best interests of the Bondholders and the Credit Facility Provider; *provided, however*, that in any event, so long as no Event of Default has occurred and is then continuing as described in paragraph (b) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above, the Trustee may not undertake any action to realize, through sale or otherwise, upon the Bond Mortgage Loan without the express written direction of the Credit Facility Provider. So long as no Event of Default has occurred and is then continuing as described in paragraph (b) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above, in the case of an Event of Default as described in paragraph (a) or (c) under the heading “EVENTS OF DEFAULT; ACCELERATION; REMEDIES” above, the Credit Facility Provider shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee.

SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF BONDHOLDERS

The Issuer and the Trustee may from time to time and at any time, without the consent of, or notice to, any of the Bondholders, but with the prior written consent of the Credit Facility Provider, and, prior to the Conversion Date, Freddie Mac (unless the Forward Commitment is no longer applicable), enter into an indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture or materially adverse to the Holders of the Bonds for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them;
- (c) to subject to the lien and pledge of the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under any state blue sky laws;
- (e) in connection with any other change in the Indenture which will not adversely affect the interest of the Trustee or the Bondholders;
- (f) to make such changes as are, in the opinion of Bond Counsel, necessary to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;
- (g) to modify or amend the Indenture as necessary to maintain the then current rating on the Bonds, except no change may be made that will adversely affect the interests of the Bondholders;
- (h) during a Variable Period, to modify, alter, amend or supplement the Indenture in any other respect, including amendments which would otherwise be described therein, if notice of the proposed supplemental indenture is given to Bondholders (in the same manner as notices of redemption are given) at least thirty (30) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture;
- (i) to modify, alter, amend or supplement the Indenture in connection with the delivery of any Alternate Credit Facility; or
- (j) to implement or modify any secondary market disclosure requirements.

SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BONDHOLDERS

With the prior written consent of the Credit Facility Provider and, prior to the Conversion Date, Freddie Mac (unless the Forward Commitment is no longer applicable), the Holders of more than 51% of the principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of

supplemental indenture or indentures as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; *provided, however*, that no such supplemental indenture may permit, or be construed as permitting, (a) an extension of the time for payment of or reduction in the Purchase Price, or an extension of the time for payment of, or an extension of the stated maturity or reduction in the principal amount or reduction in the rate of interest on or extension of the time of payment, of interest on, or reduction of any premium payable on the redemption of, any Bonds, or a reduction in the Borrower's obligation on the Bond Mortgage Note, without the consent of the Holders of all of the Bonds then Outstanding, (b) the creation of any lien prior to or on a parity with the lien of the Indenture, (c) a reduction in the aforesaid percentage of the principal amount of Bonds which is required in connection with the giving of consent to any such supplemental indenture, without the consent of the Holders of all of the Bonds then Outstanding, (d) the modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, (e) a privilege or priority of any Bond over any other Bonds or (f) any action that results in the interest on the Bonds becoming included in gross income for federal income tax purposes.

If at any time the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this heading, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed, postage prepaid, to all registered Bondholders and to the Credit Facility Provider. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all Bondholders.

A copy of such supplemental indenture shall be delivered to the Credit Facility Provider no less than forty five (45) days prior to the proposed effective date of such supplemental indenture. If, within sixty (60) days or such longer period as shall be prescribed by the Issuer following the mailing of such notice, the Holders of more than 51% of the principal amount of the Bonds then Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture and the Credit Facility Provider shall have delivered to the Trustee its written consent to such supplemental indenture, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in the Indenture permitted and provided, the Indenture shall be and be deemed to be modified and amended in accordance therewith. The Trustee may rely upon an opinion of counsel as conclusive evidence that execution and delivery of a supplemental indenture has been effected in compliance with the provisions of the Indenture.

Anything in the Indenture to the contrary notwithstanding, unless the Borrower shall then be in default of any of its obligations under the Financing Agreement, the Reimbursement Agreement, the Regulatory Agreement, the Bond Mortgage Note, the Bond Mortgage or the

Reimbursement Mortgage, a supplemental indenture under the Indenture which affects any rights of the Borrower shall not become effective unless and until the Borrower shall have expressly consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture to be mailed by certified or registered mail to the Borrower or the Borrower's attorney at least fifteen (15) days prior to the proposed date of execution and delivery of any supplemental indenture.

Notwithstanding any other provision of the Indenture, the Issuer and the Trustee may consent to any supplemental indenture upon receipt of the consent of the Credit Facility Provider and the Holders of all Bonds then Outstanding and, as applicable, the Borrower.

AMENDMENTS TO FINANCING AGREEMENT NOT REQUIRING CONSENT OF BONDHOLDERS

The Trustee shall, without the consent of, or notice to, the Bondholders, but with the consent of the Borrower, the Credit Facility Provider and, prior to the Conversion Date, Freddie Mac (unless the Forward Commitment is no longer applicable), consent to any amendment, change or modification of the Financing Agreement as follows:

- (a) as may be required by the provisions of the Credit Facility, by the Financing Agreement or by the Indenture;
 - (b) to cure any ambiguity or formal defect or omission in the Financing Agreement;
 - (c) in connection with any other change in the Financing Agreement which will not materially adversely affect the interest of the Trustee or the Bondholders;
 - (d) to modify or amend the Financing Agreement as necessary to maintain the then current rating on the Bonds;
 - (e) to make such additions, deletions or modifications as may be necessary, in the opinion of Bond Counsel delivered to the Issuer, the Trustee and the Credit Facility Provider to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;
 - (f) during a Variable Period, to modify, alter, amend or supplement the Documents in any other respect, if notice of the proposed amendments is given to Bondholders (in the same manner as notices of redemption are given) at least thirty (30) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture;
- or

(g) to modify, alter, amend or supplement the Financing Agreement in connection with the delivery of an Alternate Credit Facility to the extent such modification, alteration, amendment or supplement will not materially adversely affect the interest of the Owners.

AMENDMENTS TO FINANCING AGREEMENT REQUIRING CONSENT OF BONDHOLDERS

Except for the amendments, changes or modifications of the Financing Agreement described under the heading “AMENDMENTS TO FINANCING AGREEMENT NOT REQUIRING CONSENT OF BONDHOLDERS” above, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Financing Agreement without the consent of the Credit Facility Provider, the Borrower and, prior to the Conversion Date, Freddie Mac (unless the Forward Commitment is no longer applicable), and without the giving of notice and the written approval or consent of the Holders of at least 51% of the principal amount of the Bonds then Outstanding given and procured in accordance with the procedure described under the heading “SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BONDHOLDERS” above; *provided, however,* that nothing described under this heading shall permit, or be construed as permitting, any amendment, change or modification of the Borrower’s obligation to make the payments required under the Financing Agreement. If at any time the Issuer and the Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of the Financing Agreement, the Trustee shall cause notice of such proposed amendment, change or modification to be given in the same manner as described under the heading “SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BONDHOLDERS” above. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by Bondholders.

AMENDMENTS TO THE CREDIT FACILITY

The Trustee and the Issuer may, without the consent of, or notice to, any of the Bondholders, enter into any amendment, change or modification of the Credit Facility (a) as may be required by the provisions of the Credit Facility (including but not limited to provisions in the Credit Enhancement Agreement), (b) to cure any formal defect, omission or ambiguity in the Credit Facility, (c) in a manner which is not prejudicial to the interests of the Bondholders (which shall be conclusively evidenced by an opinion of counsel delivered to the Trustee, the Issuer and the Credit Facility Provider or by a written confirmation from the Rating Agency of the then existing rating on the Bonds delivered to the Trustee, the Issuer and the Credit Facility Provider), or (d) as may be required to maintain the then current rating on the Bonds. Except for the amendments, changes and modifications permitted pursuant to the preceding sentence, neither the Trustee, the Credit Facility Provider nor the Issuer shall enter into any amendment, change or modification of the Credit Facility without the giving of notice and the written approval or consent of the Holders of more than 51% of the principal amount of Bonds then Outstanding given and procured in accordance with the procedures set forth in the Indenture.

TRUSTEE

The Trustee, prior to an Event of Default as defined in the Indenture and after the curing of all such events which may have occurred, shall perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee, during the existence of any such Event of Default (which shall not have been cured), shall exercise such rights and powers vested in it by the Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under similar circumstances in the conduct of such person's own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligence or willful misconduct, except that:

(a) prior to an Event of Default under the Indenture, and after the curing of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee by the person or persons authorized to furnish the same;

(b) at all times, regardless of whether or not any such Event of Default shall exist:

(i) the Trustee shall not be liable for any error of judgment made in good faith by an officer or employee of the Trustee; and

(ii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Credit Facility Provider or the Holders of more than 51% of the principal amount of the Bonds then Outstanding (or such lesser or greater percentage as is specifically required or permitted by the Indenture) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee shall be under no obligation to exercise those rights or powers vested in it by the Indenture, other than such rights and powers which it shall be obligated to exercise in the ordinary course of its trusteeship under the terms and provisions of the Indenture, at the request or direction of any of the Bondholders pursuant to the Indenture, unless such Bondholders shall

have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in the compliance with such request or direction.

The Trustee and any successor Trustee may at any time resign from the trusts created under the Indenture by giving written notice to the Issuer, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider, and by giving notice by certified mail or overnight delivery service to each Holder of the Bonds then Outstanding. Such notice to the Issuer, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider may be served personally or sent by certified mail. The Trustee shall not resign until a successor Trustee has been appointed by the Issuer. If no successor Trustee shall have been appointed and have accepted appointment within sixty (60) days following delivery of all required notices of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Trustee may be removed at any time, by an instrument in writing signed by the Issuer and delivered to the Trustee, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider. The Trustee may also be removed for cause, at the request of the Credit Facility Provider, by an instrument in writing signed by the Issuer consenting to such removal (which consent of the Issuer shall not be unreasonably withheld) and delivered to the Trustee and the Borrower. The Trustee may also be removed for cause, at the request of the Borrower, by an instrument in writing signed by the Issuer and the Credit Facility Provider consenting to such removal (which consent of the Issuer and the Credit Facility Provider shall not be unreasonably withheld) and delivered to the Trustee and the Remarketing Agent. The Trustee may not be removed until a successor Trustee has been appointed and has accepted such appointment.

In case the Trustee shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting under the Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the Issuer with the approval of the Credit Facility Provider (provided that such consent shall be deemed given 15 Business Days after the Issuer delivers any such request for consent to the Credit Facility Provider if, on such date, the Credit Facility Provider has not responded to such request), by an instrument in writing signed by the Issuer and delivered to the Borrower, Credit Facility Provider, the Trustee being replaced and such successor Trustee. Every such Trustee appointed pursuant to the provisions of the Indenture shall be a trust company or bank organized under the laws of the United States of America or any state thereof and which is in good standing, within or outside the State, having a reported capital and surplus of not less than \$50,000,000 and at least \$50,000,000 in trust assets under management if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms. Such successor Trustee shall agree to be the successor mortgagee under the Bond Mortgage.

DISCHARGE OF LIEN

If the Issuer shall pay or cause to be paid to the Holders of the Bonds the principal, interest and premium, if any, to become due thereon at the times and in the manner stipulated in the Indenture, in any one or more of the following ways:

(a) by the payment of the principal of (including redemption premium, if any) and interest on all Bonds outstanding; or

(b) by (i) the deposit or credit to the account of the Trustee, in trust, of money or securities in the necessary amount (as provided in the Indenture) to pay the principal, redemption price or Purchase Price and interest (to the extent the Bonds then bear interest at a Variable Rate calculated at the Maximum Rate) whether by redemption, purchase or otherwise and (ii) if the Bonds then bear interest at the Variable Rate, the delivery to the Trustee of a written confirmation by the Rating Agency that any rating then existing on the Bonds as of the date of such deposit or credit will not be withdrawn, qualified or reduced; or

(c) by the delivery to the Trustee, for cancellation by it, of all Bonds Outstanding;

and shall have paid all amounts due and owing to the Credit Facility Provider under the Indenture and under the Credit Facility and the Reimbursement Agreement, (including but not limited to the Freddie Mac Reimbursement Amount and the Freddie Mac Credit Enhancement Fee, if applicable), and shall have paid all fees and expenses of, and other amounts owing to, the Trustee, the Servicer, the Tender Agent, the Remarketing Agent and each Paying Agent, and if the Issuer shall keep, perform and observe all and singular the covenants and promises in the Bonds and in the Indenture expressed as to be kept, performed and observed by it or on its part, then these presents and the estates and rights granted under the Indenture shall cease, determine and be void, and thereupon the Trustee shall cancel and discharge the lien of the Indenture and execute and deliver to the Issuer such instruments in writing as shall be requisite to satisfy the lien thereof, and reconvey to the Issuer the estate thereby conveyed, and assign and deliver to the Issuer any interest in property at the time subject to the lien of the Indenture which may then be in its possession, except amounts held by the Trustee for the payment of principal of, interest and premium, if any, on the Bonds, or the payment of any amounts payable to the Credit Facility Provider.

Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading if, under circumstances which do not cause interest on the Bonds to become includable in the Holders' gross income for purposes of federal income taxation, the following conditions shall have been fulfilled: (a) in case such Bond is to be redeemed on any date prior to its maturity, the Trustee shall have given to the Bondholder irrevocable notice of redemption of such Bond on said date; (b) there shall be on deposit with the Trustee, pursuant to the Indenture,

either money or direct obligations of the United States of America in an amount, together with anticipated earnings thereon (but not including any reinvestment of such earnings), which will be sufficient to pay, when due, the principal or redemption price, if applicable, and interest due and to become due on such Bond on the redemption date or maturity date thereof, as the case may be; and (c) the Trustee shall have received an opinion of nationally recognized bankruptcy counsel that payments from such moneys are not subject to Sections 547 or 550 of the United States Bankruptcy Code or any other applicable bankruptcy provisions.

The Trustee shall in no event cause the Bonds to be optionally redeemed from money deposited as described under this heading unless the requirements in the Indenture have been met with respect to such redemption.

REMARKETING AGENT

The Issuer with the approval of the Credit Facility Provider and the Borrower (which approval shall not be unreasonably withheld or delayed), shall appoint a Remarketing Agent for the Bonds, subject to the conditions set forth in the Indenture. The Remarketing Agent initially appointed under the Indenture is RBC Capital Markets Corporation. The Remarketing Agent shall designate to the Trustee its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by execution of the Remarketing Agreement. The Remarketing Agent shall, and shall agree in the Remarketing Agreement to, do each of the following:

- (a) act as agent for the Issuer in determining the interest rates to be borne by the Bonds and act as agent for Bondholders in receiving and holding money to pay the Purchase Price thereof;
- (b) use its best efforts to remarket bonds tendered for purchase (including Purchased Bonds) except in the circumstances described in the Indenture and in the Remarketing Agreement;
- (c) notify the Trustee, the Credit Facility Provider, the Borrower, the Issuer and the Tender Agent and the Variable Rate, the Reset Rate and the Fixed Rate determined in accordance with the Indenture, on the Variable Interest Computation Date or other date required for such determination, each such notification to be in writing or by telex or telecopier or other communication device which produces a written record thereof, or by telephone confirmed within one Business Day by any such written communication;
- (d) hold all money delivered to it hereunder for the purchase of Bonds in trust for the benefit of the person which shall have so delivered such money until the Bonds purchased with such money shall have been delivered to the Tender Agent, and not commingle such money with other funds of the Remarketing Agent;

(e) keep such books and records with regard to the remarketing of the Bonds as shall be consistent with prudent industry practice and make such books and records available for inspection by the Issuer, the Trustee, the Borrower and the Credit Facility Provider at all reasonable times;

(f) perform the duties of the Remarketing Agent and comply with the provisions set forth in the Indenture; and

(g) notify the Tender Agent, the Trustee, the Borrower and the Credit Facility Provider of the status of the remarketing of tendered Bonds one (1) Business Day prior to the Settlement Date and if remarketing proceeds for all tendered Bonds have not been received by the Remarketing Agent by 10:00 a.m., Washington, D.C. time, on the Settlement Date.

QUALIFICATIONS AND RESIGNATION OR REMOVAL OF REMARKETING AGENT

(a) The initial and any successor Remarketing Agent shall be a commercial bank or trust company or a member of the National Association of Securities Dealers, Inc., and authorized by law to perform all the duties imposed upon it by the Indenture and the Remarketing Agreement.

(b) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least thirty (30) days' written notice to the Issuer, the Borrower, the Credit Facility Provider, the Trustee and the Tender Agent, but any such resignation shall not be effective until a successor is appointed and has accepted such appointment. If no successor has been appointed and accepted such appointment 30 days after receipt of notice of the Remarketing Agent's resignation, the fees of the Remarketing Agent shall increase as provided in the Remarketing Agreement.

(c) The Borrower (but only with the prior written consent of the Issuer and provided the Borrower is not in default under any of the Bond Financing Documents and that no event has occurred that, with the notice or the passage of time, or both, would constitute such a default by the Borrower) at any time by a written notice to the Issuer, the Trustee, the Tender Agent and the Credit Facility Provider, may remove the Remarketing Agent and the Issuer, with the approval of the Borrower (such approval not to be unreasonably withheld or delayed, and such Borrower approval only required if the Borrower is not in default under any of the Bond Financing Documents and no event has occurred that, with notice or the passage of time, or both, would constitute such a default by the Borrower) and the Credit Facility Provider, shall appoint a successor Remarketing Agent, but such removal will not become effective until a successor Remarketing Agent satisfactory to the Issuer and the Credit Facility Provider is appointed. If (i) any Event of Default has occurred and is continuing under any Bond Mortgage Loan Document or (ii) the Remarketing Agent has failed to fulfill any of its duties or obligations under the Indenture or the Remarketing Agreement, the Credit Facility Provider may remove the

Remarketing Agent by written notice to the Issuer, the Trustee, the Tender Agent and the Borrower, and in such event the Issuer, with the approval of the Borrower (such approval not to be unreasonably withheld or delayed, and such Borrower approval only required if the Borrower is not in default under any of the Bond Financing Documents and no event has occurred that, with notice or the passage of time, or both, would constitute such a default by the Borrower) and the Credit Facility Provider, shall appoint a successor Remarketing Agent.

(d) Upon receipt of notice of resignation or upon termination of the Remarketing Agent's corporate existence or upon removal of the Remarketing Agent pursuant to the Indenture, the Issuer, with the approval of the Borrower (such approval not to be unreasonably withheld or delayed, and such Borrower approval only required if the Borrower is not in default under any of the Bond Financing Documents and no event has occurred that, with notice or the passage of time, or both, would constitute such a default by the Borrower), and the Credit Facility Provider, shall appoint a successor Remarketing Agent, which must be a trust company or bank or investment bank in good standing, within or outside the State. If the Issuer fails or refuses to make such appointment prior to the effective date of the resignation set forth in such notice (or, if earlier, within thirty (30) days of receipt of the Remarketing Agent's notice of resignation), or upon such termination of existence, the Credit Facility Provider may appoint a successor Remarketing Agent.

(e) In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any money held by it in such capacity to its successor.

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT

The following is a summary of certain provisions of the Financing Agreement. The summary does not purport to be complete or definitive and is qualified by reference to the Financing Agreement, a copy of which is on file with the Trustee.

TERMS OF THE BOND MORTGAGE LOAN

The Bond Mortgage Loan is to (a) be evidenced by the Bond Mortgage Note; (b) be initially secured by the Credit Facility and the Bond Mortgage; (c) be in the principal amount equal to the principal amount of the Bonds set forth on the cover hereof; (d) bear interest as provided in the Bond Mortgage Note; (e) provide for monthly payments into the Principal Reserve Fund upon Conversion in accordance with the Principal Reserve Schedule; and (f) be subject to optional and mandatory prepayment at the times, in the manner and on the terms, and have such other terms and provisions, as provided in the Financing Agreement and the Bond Mortgage Note and as described above. After the Conversion Date, the Servicer will act as the Servicer of the Bond Mortgage Loan pursuant to the Guide.

Prior to the Conversion Date, if the Servicer ceases to be a Freddie Mac seller/servicer of multifamily mortgage loans under the Guide, in good standing, the Borrower, with the prior written consent of Freddie Mac, may designate as a substitute servicer of the Bond Mortgage Loan another seller/servicer authorized to sell and service mortgage loans under the Guide. Such seller/servicer shall be in good standing with Freddie Mac and agree to be bound by the terms and conditions of the Construction Phase Financing Agreement. Pursuant to the Guide, Freddie Mac has the right at any time to substitute the Servicer without cause.

From and after the Conversion Date, the Servicer shall service the Bond Mortgage Loan pursuant to the Guide. The Issuer, the Trustee and the Borrower acknowledge and agree that (i) selection or removal of any Servicer is in the sole and absolute discretion of Freddie Mac, or from and after the Conversion Date, any Alternate Credit Facility Provider; (ii) neither the Issuer nor the Trustee shall terminate or attempt to terminate any Servicer as the servicer for the Bond Mortgage Loan or appoint or attempt to appoint a substitute servicer for the Bond Mortgage Loan; (iii) the Guide is subject to amendment or termination without the consent of the Trustee, the Issuer or the Borrower; provided, in the case of an amendment, that such amendment is not inconsistent with the provisions of the Bond Documents or the Freddie Mac Commitment; and (iv) none of the Trustee, the Issuer or the Borrower shall have any rights under, or be a third party beneficiary of, the Guide. From and after the Conversion Date, the Servicer shall have the right to collect all payments made by the Borrower in connection with the Bond Mortgage Loan and to receive copies of all reports and notices provided for by the Bond Documents.

INITIAL DEPOSITS

On the Delivery Date, proceeds of the Bonds and amounts received from and on account of the Borrower shall be deposited by the Trustee in accordance with the Indenture.

To the extent that amounts in the Cost of Issuance Fund are insufficient to pay all costs of issuing the Bonds, the Borrower shall cause the payment of such additional costs of issuing the Bonds to be made as such amounts become due.

PAYMENTS UNDER THE BOND MORTGAGE NOTE; INDEPENDENT OBLIGATION OF BORROWER

The Borrower agrees to repay the Bond Mortgage Loan at the times and in the amounts necessary to enable the Trustee, on behalf of the Issuer, to pay all amounts payable with respect to the Bonds when due, whether at maturity or upon redemption (with premium, if applicable) acceleration, tender, purchase or otherwise. The obligation of the Borrower to make the payments set forth in the Financing Agreement will be an independent and separate obligation of the Borrower from its obligation to make payments under the Bond Mortgage Note, provided that in all events payments made by the Borrower under and pursuant to the Bond Mortgage Note will be credited against the Borrower's obligations under the Financing Agreement on a dollar for dollar basis. If for any reason the Bond Mortgage Note or any provision of the Bond Mortgage Loan is held invalid or unenforceable against the Borrower by any court of competent

jurisdiction, the Bond Mortgage Note or such provision of the Bond Mortgage Note will be deemed to be the obligation of the Borrower pursuant to the Financing Agreement to the full extent permitted by law, and such holding will not invalidate or render unenforceable any of the provisions of the Financing Agreement and will not serve to discharge any of the Borrower's payment obligations under the Financing Agreement or eliminate the credit against such obligations to the extent of payments made under the Bond Mortgage Note.

The obligations of the Borrower to repay the Bond Mortgage Loan, to perform all of its respective obligations under the Bond Mortgage Loan Documents, to provide indemnification pursuant to the Financing Agreement, to pay costs, expenses and charges pursuant to the Financing Agreement and to make any and all other payments required by the Financing Agreement, the Indenture or any other documents contemplated by the Financing Agreement or by the Bond Mortgage Loan Documents will, subject to the limitations in the Financing Agreement, be absolute and unconditional and will not be subject to diminution by set off, recoupment, counterclaim, abatement or otherwise.

Notwithstanding anything contained in any other provision of the Financing Agreement to the contrary (but subject to the provisions of the Intercreditor Agreement), the following obligations of the Borrower are to be the joint and several full recourse obligations of the Borrower, and each of the Borrower's general partners, payable from and enforceable against any and all income, assets and properties of the Borrower and each of its general partners: (i) the Borrower's obligations to the Issuer and the Trustee as set forth in the Financing Agreement; (ii) the Borrower's obligations with respect to indemnification as set forth in the Financing Agreement; and (iii) the Borrower's obligation to pay all arbitrage rebate amounts owed with respect to the Bonds as provided in the Financing Agreement.

PAYMENT OF CERTAIN FEES AND EXPENSES UNDER THE BOND MORTGAGE NOTE

The payments to be made by the Borrower under the Bond Mortgage Note include certain money to be paid in respect of, among others, the Bond Fee Component and the annual rating maintenance fees of the Rating Agency, if any. To the extent that any portion of the Bond Fee Component or the annual rating maintenance fees to the Rating Agency, if any, remain due at any time, such amounts remaining due will be payable from money on deposit in the Administration Fund as provided in the Indenture or from other money of the Borrower, to the extent that money in the Administration Fund is insufficient for such purposes. All other fees and expenses specified in the Financing Agreement (including Costs of Issuance, fees of Freddie Mac and of the Bank, and fees and expenses of the Issuer, the Servicer, the Trustee and the Rating Agency) are be payable from money of the Borrower as provided in the Financing Agreement.

PREPAYMENT OF THE BOND MORTGAGE LOAN

The Borrower will have the option to prepay the Bond Mortgage Loan in full or in part prior to the payment and discharge of all the outstanding Bonds only in accordance with the provisions of the Indenture and the Financing Agreement and only with the prior written consent of the Credit Facility Provider. The Borrower will be required to prepay the Bond Mortgage Loan in each case that Bonds are required to be redeemed pursuant to the provisions of the Indenture. The Bonds are subject to redemption in accordance with the terms and conditions set forth in the Indenture. In connection with any prepayment, whether optional or mandatory, in addition to all other payments required under the Bond Mortgage Note, the Borrower is to pay, or cause to be paid to the Servicer (from and after the Conversion Date) or other party as directed by the Credit Facility Provider (or, if no Credit Facility is then in effect, to the Trustee), an amount sufficient to pay the redemption price of the Bonds to be redeemed, including principal, interest and premium (if any), and further including any interest to accrue with respect to the Bond Mortgage Loan and such Bonds between the prepayment date and the redemption date, together with a sum sufficient to pay all fees, costs and expenses in connection with such redemption and, in the case of redemption in whole, to pay all other amounts payable under the Financing Agreement, under the Indenture, the Regulatory Agreement and the Reimbursement Agreement.

BORROWER'S OBLIGATIONS UPON REDEMPTION OR TENDER

In the event of any redemption of the Bonds, the Borrower is to timely pay, or cause to be paid through the Servicer, to the Trustee an amount equal to the principal amount of such Bonds or portions thereof called for redemption, together with interest accrued to the redemption date and premium, if any. The Borrower is to timely pay all fees, costs and expenses associated with any redemption of Bonds. In the event that on any optional tender date or mandatory tender date under and as provided in the Indenture, Bonds are tendered and not remarketed by the Remarketing Agent, and remarketing proceeds are not available for the purpose of paying the purchase price of such Bonds, the Borrower is to cause to be paid, under and subject to the terms of the Reimbursement Agreement and the Credit Facility to the Trustee by the applicable times provided in the Indenture an amount equal to the principal amount of such Bonds tendered and not remarketed, together with interest accrued to the mandatory tender date or optional tender date, as the case may be.

PRINCIPAL RESERVE FUND

The Borrower shall make payments to the Servicer, for remittance to the Trustee, to be deposited by the Trustee into the Principal Reserve Fund in accordance with the Principal Reserve Schedule. Amounts on deposit in the Principal Reserve Fund shall be applied as provided in the Indenture; provided, that the amount on deposit in the Principal Reserve Fund shall, upon the occurrence of an event of default under the Bond Mortgage Loan or under any

Bond Mortgage Loan Document, be used in any manner and for any purpose specified in writing by the Credit Facility Provider.

Amounts in the Principal Reserve Fund shall not be credited against the principal amount of the Bond Mortgage Note or be deemed to be interest payments on the Bond Mortgage Loan until the date such amounts are withdrawn from the Principal Reserve Fund and used to reimburse Freddie Mac for amounts paid under the Credit Enhancement Agreement to redeem or otherwise pay principal of or interest on the Bonds.

CREDIT FACILITY

The Borrower may, with the prior written confirmation of the Bank and Freddie Mac prior to the Conversion Date, and with the prior written consent of the Credit Facility Provider from and after the Conversion Date (provided there has been no Wrongful Dishonor), but without the consent of the Trustee or the Bondholders, on any Interest Payment Date during a Variable Period, on any Reset Adjustment Date, or any Variable Rate Adjustment Date and on the Fixed Rate Adjustment Date (but no later than seventeen (17) days prior to the expiration date of the Credit Facility unless a commitment to extend the Credit Facility has been delivered to the Trustee satisfying the requirements of the Indenture, if applicable), and, following the beginning of a Reset Period or the Fixed Rate Period, on any Interest Payment Date occurring after the Bonds may first be optionally redeemed at a price of not greater than par plus accrued interest to the redemption date and subject to the terms of the existing Credit Facility and Reimbursement Agreement, arrange for the delivery to the Trustee of an Alternate Credit Facility in substitution for the Credit Facility then in effect (referred to as “*credit support*”) and, if applicable, for payment of the Purchase Price of Bonds delivered or deemed delivered in accordance with the Indenture (referred to as “*liquidity support*”). Notwithstanding the preceding sentence, the Credit Facility Provider may provide any other form of “*credit support*” or “*liquidity support*” (or combination thereof) issued by the Credit Facility Provider in substitution for the then existing Credit Facility, without the consent of the Borrower (and without the consent of the Bondholders), if (A) the conditions of Section 8.05 of the Indenture are satisfied, (B)(x) the Rating Agency confirms in writing that the substitution will not result in a reduction, withdrawal or qualification of the then current rating of the Bonds, (y) the Credit Facility Provider delivers to the Issuer and the Trustee an Opinion of Counsel satisfying the requirements of paragraph (c) below, and (z) such substitute “*credit support*” or “*liquidity support*” (or combination thereof) does not increase the amounts required to be paid by, or other obligations of, the Borrower. Any Alternate Credit Facility shall satisfy the following conditions, as applicable:

- (a) An Alternate Credit Facility may be issued to provide only credit support or only liquidity support so long as a separate Credit Facility provides, at all times while such Alternate Credit Facility is in effect, complementary credit support or liquidity support, as the case may be, so that at all times while any of the Bonds bear interest at the Variable Rate or the Reset Rate such Bonds will be entitled to credit support and to the

liquidity support required by such mode; provided, that in no event will Freddie Mac be obligated to provide only liquidity or credit support if any Person other than Freddie Mac provides either liquidity or credit support. During the Fixed Rate Period, the Bonds will be entitled to credit support only.

(b) The Alternate Credit Facility is to (i) be in an amount equal to the aggregate principal amount of the Bonds Outstanding from time to time plus the Interest Requirement; (ii) provide for payment in immediately available funds to the Trustee upon receipt of the Trustee's request for such payment with respect to any Interest Payment Date, purchase date (if applicable) or extraordinary mandatory redemption date pursuant to the Indenture; (iii) if the Alternate Credit Facility is provided to secure Bonds during a Reset Period, provide an expiration date no earlier than the earliest of (1) the day following the Reset Adjustment Date immediately succeeding the Reset Period; (2) 10 days after the Trustee receives notice from the Credit Facility Provider of an Event of Default under the Financing Agreement or a default under and as defined in the Reimbursement Agreement and a direction to redeem all Outstanding Bonds; (3) the date on which all Bonds are paid in full and the Indenture is discharged in accordance with its terms; and (4) the date on which the Bonds become secured by an Alternate Credit Facility in accordance with the terms of the Indenture and the Reimbursement Agreement; (iv) unless waived by the Issuer in its sole discretion, result in the Bonds receiving a long term rating or short term rating, or both, as applicable for the mode then in effect, in one of the three highest rating categories of the Rating Agency (or such lower ratings as shall be approved by the Issuer) and (v) have a stated expiration or termination date not sooner than one year following its effective date.

(c) In connection with the delivery of an Alternate Credit Facility, the Trustee must receive (i) an Opinion of Counsel to the Credit Facility Provider issuing the Alternate Credit Facility, in form and substance satisfactory to the Issuer and the Trustee, relating to the due authorization and issuance of the Alternate Credit Facility, its enforceability, that the statements (if any) made relating to the Alternate Credit Facility and Reimbursement Agreement contained in any new disclosure document or supplement to the existing disclosure document relating to the Bonds are true and correct, that the Alternate Credit Facility is not required to be registered under the Securities Act of 1933, as amended and if required by the Rating Agency, that payments made by the Credit Facility Provider pursuant to the Credit Facility will not be voidable under Section 547 of the Bankruptcy Code and would not be prevented by the automatic stay provisions of Section 362(a) of the Bankruptcy Code, in the context of a case or proceeding by or against the Borrower, a general partner of the Borrower or by the Issuer under the Bankruptcy Code; (ii) an Opinion of Bond Counsel to the effect that the substitution of such Alternate Credit Facility will not adversely affect the exclusion from gross income, for federal income tax purposes, of the interest payable on the Bonds; (iii) the delivery of a new disclosure document or supplement to the existing disclosure document relating to the Bonds for the period commencing with the delivery of the Alternate Credit Facility

and (iv) the delivery of a continuing disclosure agreement if required by the Financing Agreement.

TAX COMPLIANCE

The Borrower has covenanted for the benefit of the Issuer, the Bondholders and the Trustee that the proceeds of the Bonds, the earnings thereon and any other moneys on deposit in any fund or account maintained in respect of the Bonds (whether such moneys were derived from the proceeds of the sale of the Bonds or from other sources) will not be used in a manner which would cause the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

The Borrower, for the benefit of the Issuer and each Bondholder, has represented that it has not taken, or permitted to be taken on its behalf, and agreed that it will not take, or permit to be taken on its behalf, any action which would adversely affect the exclusion from gross income for federal income tax purposes of the interest paid on the Bonds, and that it has taken and caused to be taken, and agrees that it will make and take, or require to be made and taken, all actions that may be required of it, alone and in conjunction with the Issuer, for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes.

EVENTS OF DEFAULT

The following shall be “Events of Default” under the Financing Agreement and the term “Event of Default” or “default” shall mean, whenever they are used in the Financing Agreement, one or all of the following events:

(a) Any representation or warranty made by the Borrower in the Bond Documents or any certificate, statement, data or information furnished by the Borrower in connection therewith or included by the Borrower in its application to the Issuer for assistance proves at any time to have been incorrect when made in any material respect;

(b) Failure by the Borrower to pay any amounts due under the Financing Agreement, the Bond Mortgage Note or the Bond Mortgage at the times and in the amounts required by the Financing Agreement, the Bond Mortgage Note or the Bond Mortgage;

(c) The Borrower’s failure to observe and perform any of its other covenants, conditions or agreements contained in the Financing Agreement other than as referred to in paragraph (a) above for a period of 30 days after written notice specifying such failure and requesting that it be remedied is given by the Issuer or the Trustee to the Borrower; provided, however, that if the failure shall be such that it can be corrected but not within such period, the Issuer and the Trustee will not unreasonably withhold their consent to an

extension of such time if corrective action is instituted by the Borrower within such period and diligently pursued until the failure is corrected; or

(d) The occurrence of an “Event of Default” under the Reimbursement Agreement shall at the discretion of the Credit Facility Provider constitute an Event of Default under the Financing Agreement but only if the Trustee is provided written notice thereof by the Credit Facility Provider that an Event of Default has occurred under the Reimbursement Agreement and the Trustee is instructed by the Credit Facility Provider that such default constitutes an Event of Default under the Financing Agreement. The occurrence of an Event of Default under the Financing Agreement or a default continuing beyond any applicable cure period shall in the discretion of the Credit Facility Provider constitute an Event of Default under the Bond Mortgage Loan Documents and the Reimbursement Agreement.

None of the provisions of the Financing Agreement described under this heading is intended to amend or modify any of the provisions of the Bond Financing Documents or to bind the Issuer, the Trustee, the Servicer, or the Credit Facility Provider to any notice and cure periods other than as expressly set forth in the Bond Documents and the Reimbursement Agreement.

REMEDIES ON DEFAULT

Subject to the provisions of the Financing Agreement and the provisions of the Intercreditor Agreement, whenever any Event of Default under the Financing Agreement shall have happened and be existing, the Trustee or the Issuer where so provided may take any one or more of the following remedial steps; provided, that in no event shall the Issuer be obligated to take any steps which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until a satisfactory indemnity bond has been furnished to it:

(a) The Issuer shall cooperate with the Trustee as the Trustee acts pursuant to the Indenture.

(b) In the event any of the Bonds shall at the time be Outstanding and not paid and discharged in accordance with the provisions of the Indenture, the Issuer or the Trustee may have access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Borrower.

(c) The Issuer may, without being required to give any notice (other than to the Trustee), except as provided in the Financing Agreement, pursue all remedies of a creditor under the laws of the State, as supplemented and amended, or any other applicable laws.

(d) The Issuer or Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the payments due under the Financing Agreement then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Financing Agreement.

Any amounts collected pursuant to the Financing Agreement and any other amounts that would be applicable to payment of principal of and interest and any premium on the Bonds collected pursuant to action described under this heading shall be applied in accordance with the provisions of the Indenture.

The provisions of the Financing Agreement described under this heading are subject to the further limitation that if, after any Event of Default all amounts which would then be payable under the Financing Agreement by the Borrower if such Event of Default had not occurred and was not continuing shall have been paid by or on behalf of the Borrower, and the Borrower shall have also performed all other obligations in respect of which it is then in default under the Financing Agreement, and shall have paid the reasonable charges and expenses of the Issuer, the Trustee, the Servicer and the Credit Facility Provider, including reasonable attorneys' fees paid or incurred in connection with such default, and shall have paid all amounts owed to the Credit Facility Provider, including but not limited to any Freddie Mac Reimbursement Amounts and Freddie Mac Credit Enhancement Fees (in the case that Freddie Mac is the Credit Facility Provider), and if there shall then be no Event of Default existing under the Indenture, then and in every such case such Event of Default under the Financing Agreement shall be waived and annulled, but no such waiver or annulment shall affect any subsequent or other Event of Default or impair any right consequent thereon.

Notwithstanding anything in the Financing Agreement to the contrary, as long as a Wrongful Dishonor has not occurred with respect to the Credit Facility, neither the Issuer, the Trustee nor any other person shall, upon the occurrence of an Event of Default under the Financing Agreement or an event of default under the Bond Documents, take any action to accelerate or otherwise enforce payment or seek other remedies with respect to the Bond Mortgage Loan, except at the direction of the Credit Facility Provider; provided, that this prohibition shall not be construed to limit the rights of the Issuer or the Trustee to specifically enforce the Regulatory Agreement in order to provide for operation of the Project in accordance with the Code and the Act or to otherwise enforce the Unassigned Rights by means of specific performance; and provided, further, that this prohibition shall not be construed to limit the rights of the Issuer, the Trustee, the Servicer, the Credit Facility Provider or any other indemnified party to enforce its rights against the Borrower under any section of the Financing Agreement relating to the payment of fees, federal rebate and indemnification by mandamus or other suit, action or proceeding at law or in equity where such suit, action or proceeding does not seek any remedies under or with respect to the Bond Mortgage, the Reimbursement Mortgage or cause acceleration of the Bond Mortgage Loan.

SUMMARY OF CERTAIN PROVISIONS OF THE CONSTRUCTION PHASE FINANCING AGREEMENT

The following is a summary of certain provisions of the Construction Phase Financing Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Construction Phase Financing Agreement, a copy of which is on file with the Trustee.

The Construction Phase Credit Facility Provider, the Servicer and Freddie Mac will enter into a Construction Phase Financing Agreement, dated as of the date of the Indenture, which governs the rights of the Construction Phase Credit Facility Provider and Freddie Mac during the period from the Delivery Date to the earlier of (i) the Conversion Date and (ii) the Forward Commitment Maturity Date (such period being the “*Construction Phase*”).

DELIVERY OF CREDIT ENHANCEMENT AGREEMENT

The Construction Phase Credit Facility Provider will deliver the Letter of Credit to the Trustee in connection with the issuance of the Bonds. Upon satisfaction of the following conditions and those conditions set forth in the Forward Commitment, Freddie Mac will, on the Conversion Date, issue its Credit Enhancement Agreement in substitution for the Letter of Credit:

(a) Freddie Mac has received from the Architectural Consultant a certificate to the effect that the Borrower has completed the improvements to the Project in a good and workmanlike manner and in compliance with the terms set forth in the Construction Phase Financing Agreement.

(b) The identity of the Borrower under the Bond Mortgage Loan has not changed (except as specifically permitted in the Construction Phase Financing Agreement) and the Borrower continues to be an eligible Borrower under the Guide.

(c) Certification by the Borrower and the Servicer and proof that physical occupancy of the Project under Acceptable Leases (as defined in the Construction Phase Financing Agreement) for the preceding three calendar months has been at least 90%.

(d) Based upon the formula set forth in the Forward Commitment, Freddie Mac has determined the Actual Mortgage Loan Amount to be effective upon the Conversion Date.

(e) Information as required by the Guide is provided pursuant to the Construction Phase Financing Agreement to establish the actual annualized Effective Gross Income produced by the Project in each of the three months during the Stabilization Period.

(f) The Project is eligible for low-income housing tax credits and the Borrower must have taken all steps necessary to obtain allocation of such low-income housing tax credits to the Project in the required amount as set forth in the Construction Phase Financing Agreement.

(g) The Servicer has received a current as-built survey of the Project meeting the requirements of the Guide.

(h) The Servicer has received an original Title Policy or commitment to issue the Title Policy naming Freddie Mac as the insured and meeting other such requirements as set forth in the Construction Phase Financing Agreement.

(i) Freddie Mac has completed all necessary real estate due diligence regarding the Project.

(j) Freddie Mac has approved the Manager of the Project.

(k) No event of default has occurred and is continuing under any credit facility document.

(l) All special conditions to delivery set forth in the Construction Phase Financing Agreement or the Forward Commitment have been satisfied.

(m) The following documents (each as defined in and attached as an exhibit to the Construction Phase Financing Agreement) dated as of the Conversion Date have been finalized and agreed by the parties to be delivered into escrow to the Servicer: the Assignment of Rights and Interests; the Certificate of Borrower; the Freddie Mac Reimbursement Agreement; Freddie Mac Pledge, Security and Custody Agreement; the Replacement Reserve Agreement; the Guaranty; the Amended and Restated Second Leasehold Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing; the Swap Credit Enhancement Agreement; any required subordination agreements; the Principal Reserve Fund Schedule; the Uniform Commercial Code financing statements; and such other document as Freddie Mac or the Servicer shall reasonably request.

(n) The Remarketing Agent is under contract to remarket the Bonds, from and after the Conversion Date, must be acceptable to Freddie Mac, in its sole and absolute discretion, pursuant to a Remarketing Agreement acceptable to Freddie Mac, in its sole and absolute discretion.

(o) Freddie Mac and the Servicer have received a final form of an opinion of counsel to the Borrower in form and substance acceptable to Freddie Mac and the Servicer.

(p) The Trustee and Issuer have received a final form of a then current opinion of Bond Counsel to the effect that the substitution of the Credit Enhancement Agreement for the Letter of Credit and the occurrence of Conversion is permitted by the Indenture and will not adversely affect the excludability from gross income, for federal income tax purposes, of the interest payable on the Bonds.

(q) Any guaranty of completion, executed by the Borrower and the guarantors named in that guaranty have terminated.

In addition, the following conditions must also be satisfied:

(a) The Servicer must have issued the Notice of Conversion as provided in the Construction Phase Financing Agreement.

(b) The Actual Mortgage Loan Amount to be effective upon the Conversion Date must satisfy the terms of the Forward Commitment.

(c) The Borrower has provided assurance acceptable to the Servicer that any gap or bridge financing provided to the Borrower has been or will be, as of the Conversion Date, paid in full and all liens imposed on the Borrower in connection with such financing have been or will be released as of the Conversion Date, including, but not limited to, the release from record of all related liens on the Project.

(d) The Borrower has provided assurance acceptable to Freddie Mac that all (i) equity contributions to be made to the Borrower after the Closing Date and on or before the Conversion Date, (ii) cash required to be invested in the Project on or before the Conversion Date and (iii) Approved Subordinate Financing (as defined in the Freddie Mac Commitment), have been or will be received by the Borrower and have been properly invested in, or otherwise applied to, the Project.

(e) The Hedge delivered at the Closing Date will be in full force and effect, be in conformance with the requirements of the Freddie Mac Commitment and no event of default shall have occurred thereunder or the Borrower must have purchased a Hedge in accordance with the requirements of the Freddie Mac Reimbursement Agreement and the Freddie Mac Commitment.

(f) No event has occurred and is continuing and no event will result from Conversion to the Permanent Phase, which event is, or would constitute, an Event of Default under any Credit Facility Document to be in effect from and after the Conversion Date or a default under any Approved Subordinate Financing in each case but for the requirement that notice be given or time elapse or both.

(g) The Trustee has received written confirmation from the Rating Agency that the Bonds will be assigned a rating, or will maintain a rating, not less than the rating in effect prior to the Conversion Date.

Unless otherwise agreed to in writing by Freddie Mac, the Conversion Date must (i) if occurring during a Variable Period (as defined in the Indenture) be the first day of a Variable Interest Accrual Period (as defined in the Indenture), (ii) occur following the Stabilization Period (as defined in the Construction Phase Financing Agreement) and (iii) occur on or before the Forward Commitment Maturity Date.

If the Conditions to Conversion set forth in the Construction Phase Financing Agreement are satisfied (or to the extent not satisfied, are waived by Freddie Mac) on or before the Forward Commitment Maturity Date, the Servicer will issue the Notice of Conversion (as defined in the Construction Phase Financing Agreement) not less than 12 days before the Forward Commitment Maturity Date and the Conversion Date. Provided such Notice of Conversion is timely given and the documents listed in the Construction Phase Financing Agreement have been fully executed and delivered, Conversion will occur on the Conversion Date, and on such date Freddie Mac will deliver the Credit Enhancement Agreement to the Trustee. IF THE NOTICE OF CONVERSION IS NOT ISSUED ON OR BEFORE THE FORWARD COMMITMENT MATURITY DATE (AS SUCH DATE MAY BE EXTENDED FROM TIME TO TIME IN ACCORDANCE WITH THE CONSTRUCTION PHASE FINANCING AGREEMENT AND THE FORWARD COMMITMENT), NO MATTER THE REASON, CONVERSION WILL NOT OCCUR, THE CONSTRUCTION PHASE CREDIT FACILITY PROVIDER WILL HAVE NO OBLIGATION TO DELIVER THE CONSTRUCTION PHASE CREDIT FACILITY ASSIGNMENT, FREDDIE MAC WILL HAVE NO OBLIGATION TO DELIVER THE CREDIT ENHANCEMENT AGREEMENT TO THE TRUSTEE, AND FREDDIE MAC WILL HAVE NO OBLIGATION WITH RESPECT TO THE BONDS OR THE BOND MORTGAGE LOAN AND THE CONSTRUCTION PHASE FINANCING AGREEMENT WILL TERMINATE.

The Forward Commitment Maturity Date is December 1, 2011, but is subject to extension in accordance with the Construction Phase Financing Agreement and the Forward Commitment. Any extension of the Forward Commitment Maturity Date will be conditional upon an extension of the expiration date of the Letter of Credit, or confirmation that the Letter of Credit will be in effect through the Forward Commitment Maturity Date, as extended.

SUMMARY OF CERTAIN PROVISIONS OF THE CONSTRUCTION PHASE CREDIT REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Construction Phase Credit Reimbursement Agreement, as in effect on the date of this Official Statement. This summary is not a complete recital of the terms of the Construction Phase Credit Reimbursement Agreement, and reference is made to the Construction Phase Credit Reimbursement Agreement in its entirety. The Construction Phase Credit Reimbursement Agreement may be amended or otherwise modified without notice to or consent by any person or entity other than parties

thereto. Capitalized terms used below without definition shall have the meanings ascribed to them in the Construction Phase Credit Reimbursement Agreement, a copy of which is on file with the Trustee.

The Construction Phase Credit Facility Provider and the Borrower will enter into a Reimbursement Agreement (the “*Construction Phase Credit Reimbursement Agreement*”), dated as of the date of the Indenture, which governs the rights of the Construction Phase Credit Facility Provider and the Borrower prior to the Conversion Date.

Pursuant to the Construction Phase Credit Reimbursement Agreement, the Construction Phase Credit Facility Provider is issuing, for the account of the Borrower, the Construction Phase Credit Facility and a standby letter of credit (the “*Swap Letter of Credit*”) payable to the provider of an interest rate protection agreement with respect to the Bond Mortgage Loan. The Construction Phase Credit Reimbursement Agreement obligates the Borrower, among other things, to reimburse the Construction Phase Credit Facility Provider for funds advanced by the Construction Phase Credit Facility Provider under the Construction Phase Credit Facility and the Swap Letter of Credit, and to pay various fees and expenses, in each case as provided in the Construction Phase Credit Reimbursement Agreement.

The Construction Phase Credit Reimbursement Agreement sets forth various affirmative and negative covenants of the Borrower, some of which are more restrictive with respect to the Borrower than similar covenants in the Indenture and Financing Agreement.

The obligations of the Borrower under the Construction Phase Credit Reimbursement Agreement and the other Loan Documents are secured by, among other things, a Construction Phase Credit Facility Provider Mortgage which names the Construction Phase Credit Facility Provider as beneficiary (the “*Construction Phase Credit Facility Provider Mortgage*”) encumbering the Property, and by security interests in certain tangible and intangible personal property and accounts.

The Construction Phase Credit Facility Provider and the Borrower may agree at any time to alter, modify or amend the terms of the Construction Phase Credit Reimbursement Agreement or any of the other Loan Documents, including the events which constitute “Defaults” or “Events of Default” thereunder, without notice to or consent of the Borrower or the Trustee. Furthermore, the Construction Phase Credit Facility Provider may unilaterally waive any Default which may occur under the terms of the Construction Phase Credit Reimbursement Agreement or the other Loan Documents (as that term is defined in the Construction Phase Credit Reimbursement Agreement), without notice to or consent of any other person. Accordingly, there should be no expectation on the part of any prospective purchaser of the Bonds that the occurrence of a Default under the Construction Phase Credit Reimbursement Agreement will necessarily result in implementation of remedies by the Construction Phase Credit Facility Provider or in the call of any or all of the Bonds for mandatory tender or redemption under the Indenture.

Money in the Project Account and the Equity Account of the Bond Mortgage Loan Fund established pursuant to the Indenture may be disbursed by the Trustee to or for the account of the Borrower only by means of a requisition approved by the Construction Phase Credit Facility Provider. The Construction Phase Credit Reimbursement Agreement sets forth certain conditions to such approval, including without limitation (i) compliance with plans and specifications approved by the Construction Phase Credit Facility Provider, (ii) compliance with a budget approved from time to time by the Construction Phase Credit Facility Provider, (iii) the occurrence of no Default or event which, with the giving of notice or the passage of time, or both, would be a Default under the Construction Phase Credit Reimbursement Agreement or the other Loan Documents or Bond Documents, (iv) delivery of certain invoices, lien releases and other documents by the Borrower and by suppliers of labor and materials to the Project. After the closing of the Bonds and an initial disbursement, the Construction Phase Credit Facility Provider is not obligated to consent to further disbursement from the Project Fund until certain conditions set forth in the Construction Phase Credit Reimbursement Agreement are satisfied or waived by the Construction Phase Credit Facility Provider. The Construction Phase Credit Facility Provider does not assure that these procedures will insure that the Project will remain on budget or that the proceeds of the Bonds will be sufficient to fund the costs of construction of the Project, and the Construction Phase Credit Facility Provider undertakes no duty to the Trustee or to any owner or prospective owner of Bonds to insure that the Borrower complies with plans, specifications, budgets or other project-related documents.

Bonds tendered for purchase, not remarketed and purchased with the proceeds of a drawing upon the Construction Phase Credit Facility will be Purchased Bonds, and will be subject to a security interest in favor of the Construction Phase Credit Facility Provider.

EVENTS OF DEFAULT

The occurrence of any one or more of the following shall constitute an event of default (hereinafter, “*Default*”) under the Construction Phase Credit Reimbursement Agreement (all capitalized terms used herein and not otherwise defined shall have the meanings set forth for such terms in the Construction Phase Credit Reimbursement Agreement):

1. (a) The Borrower’s failure to pay when due any sum payable pursuant to the Construction Phase Credit Reimbursement Agreement (including without limitation reimbursement of amounts drawn under the Construction Phase Credit Facility, fees payable to the Construction Phase Credit Facility Provider, and costs reimbursable by the Borrower to the Construction Phase Credit Facility Provider), or (b) the Borrower’s failure to pay when due any other sum payable under any of the Bond Documents or Loan Documents or the Borrower’s failure to deposit any funds as required into the Equity Account of the Bond Mortgage Loan Fund that is held by the Trustee pursuant to the Indenture, if such failure under this subclause (b) is not cured within three (3) days after such sum first becomes due and payable; or

2. Any Event of Default (as defined in the Construction Phase Credit Facility Provider Mortgage) occurs and is continuing; or
3. Construction of the Improvements is not completed by the Completion Date or Construction Phase Credit Facility Provider reasonably determines that it will not be feasible to complete the Improvements by the Completion Date; or
4. Construction of the Improvements is halted prior to completion for any period of twenty (20) consecutive days except to the extent, if any, that the Completion Date is extended by the period of the excess pursuant to Section 12.11 of the Construction Phase Credit Reimbursement Agreement; or
5. A court of competent jurisdiction enters an order enjoining construction of the Improvements, or such a court or an authorized governmental agency orders that leasing of the Improvements be suspended or halted, or any approval, license or permit required for construction or operation of the Project is withdrawn or suspended, and the order, withdrawal or suspension remains in effect for a period of thirty (30) consecutive days; or
6. Borrower is in default under any Project Contract after the expiration of any applicable grace or cure period; or
7. Borrower is out of compliance with any of the Requirements in any material respect after the expiration of any applicable grace or cure period; or
8. Any party is in material default of its obligations under Borrower's Governing Agreement after the expiration of any applicable grace or cure period; or
9. Borrower, any Guarantor or any other person or entity liable for the Letter of Credit purports to revoke, disputes the validity of or disputes the enforceability of its obligations under any of the Loan Documents or the Indemnity Agreement; or
10. Borrower fails to satisfy the conditions to the next succeeding Disbursement for a period in excess of thirty (30) days at any time after the Commencement Date and prior to the making of the final Disbursement for payment of Hard Costs under the Construction Phase Credit Reimbursement Agreement; or
11. A material adverse change occurs in the assets, liabilities or financial position of Borrower, Guarantor or any other person or entity liable for the Letter of Credit; or
12. Borrower fails to satisfy any of the conditions to payment to Borrower of any of Borrower's Sources in a timely manner, which failure remains uncured after the expiration of any applicable grace or cure period; or
13. Any uncured Event of Default exists under any of the Junior Loan Documents; or

14. Borrower fails to perform any obligation other than those described in Section 1 above, under any of the Loan Documents; provided, however, that if a cure period is provided for the remedy of such failure, Borrower's failure to perform will not constitute a Default until such date as the specified cure period expires without such failure having been appropriately remedied and provided further that if no cure period is provided for such failure, then Borrower's failure to perform will not constitute a Default until thirty (30) days after receipt of notice from Construction Phase Credit Facility Provider of such failure; or

15. Borrower fails to perform any obligation other than those described in Section 1 above, under any of the Bond Documents; provided, however, that if a cure period is provided for the remedy of such failure, Borrower's failure to perform will not constitute a Default until such date as the specified cure period expires without such failure having been appropriately remedied; or

16. (i) The recording of any claim of lien against the Property or Improvements or the service on Construction Phase Credit Facility Provider or Trustee of any bonded stop notice relating to the loan of proceeds of the Bonds and the continuance of such claim of lien or bonded stop notice for twenty (20) days without compliance with Sections 5.9 and 5.38 of the Construction Phase Credit Reimbursement Agreement; or (ii) the condemnation, seizure or appropriation of, or occurrence of an uninsured casualty with respect to any material portion of the Property or Improvements; or (iii) the sequestration or attachment of, or any levy or execution upon any of, the Property or Improvements, any other collateral provided by Borrower under any of the Bond Documents or Loan Documents, or any substantial portion of the other assets of Borrower, which sequestration, attachment, levy or execution is not released, expunged or dismissed prior to the earlier of sixty (60) days or the sale of the assets affected thereby; or

17. (i) The failure of any representation or warranty of Borrower in any of the Bond Documents or Loan Documents, and the continuation of such failure for more than fifteen (15) days after written notice to Borrower from Construction Phase Credit Facility Provider requesting that Borrower cure such failure; or (ii) any material adverse change in the financial condition of Borrower or any other person or entity in any manner obligated to Construction Phase Credit Facility Provider under the Bond Documents or Loan Documents from the financial condition represented to Construction Phase Credit Facility Provider as of the Effective Date; or

18. (i) The filing of a petition by Borrower for relief under the Bankruptcy Code, or under any other present or future state or federal law regarding bankruptcy, reorganization or other debtor relief law; (ii) the filing of any pleading or an answer by Borrower in any involuntary proceeding under the Bankruptcy Code or other debtor relief law which admits the jurisdiction of the court or the petition's material allegations regarding Borrower's insolvency; (iii) a general assignment by Borrower for the benefit of creditors; or (iv) Borrower applying for, or the appointment of, a receiver, trustee, custodian or liquidator of Borrower or any of its property; or

19. The failure of Borrower to effect a full dismissal of any involuntary petition under the Bankruptcy Code or under any other debtor relief law that is filed against Borrower or in any way restrains or limits Borrower or Construction Phase Credit Facility Provider regarding this Reimbursement Agreement or any of the other Loan Documents, the Property or the Improvements, prior to the earlier of the entry of any court order granting relief sought in such involuntary petition, or sixty (60) days after the date of filing of such involuntary petition; or

20. The occurrence of any of the events specified in Section 11.1.18 or 11.1.19 of the Construction Phase Credit Reimbursement Agreement as to any person or entity other than Borrower, including, without limitation, any Sponsor, or any Guarantor, which is in any manner obligated to Construction Phase Credit Facility Provider under the Bond and Loan Documents; or

21. The occurrence of any of the events specified in Sections 11.1.18 or 11.1.19 of the Construction Phase Credit Reimbursement Agreement with respect to the Tax Credit Investor, on whose financial resources Construction Phase Credit Facility Provider has relied; or

22. The dissolution, unwind or termination of the Guarantor; or

23. (a) Either of _____ shall cease for any reason to be managing member of Sponsor; or (b) the occurrence of any material management or organizational change in Borrower or in the partners of Borrower (other than as permitted in Section 4.13 of the Construction Phase Credit Facility Provider Mortgage), including, without limitation, any partnership, joint venture or member dispute which Construction Phase Credit Facility Provider determines, in its sole and absolute discretion, is likely to have a material adverse effect on the rights of Construction Phase Credit Facility Provider under the Construction Phase Credit Reimbursement Agreement or any of the other Loan Documents, on the Property and Improvements, or on the ability of Borrower or its partners, venturers or members to perform their obligations under the Bond and Loan Documents; or

24. The failure at any time of the Construction Phase Credit Facility Provider Mortgage to be a valid lien upon the Property and Improvements or any portion thereof, subject only to the Permitted Encumbrances (other than any such failure caused by Construction Phase Credit Facility Provider's execution and delivery of a subordination agreement subordinating the lien of the Construction Phase Credit Facility Provider Mortgage to another lien upon the Property); or

25. The sale, assignment, pledge, hypothecation, mortgage or transfer of the assets of Borrower or Borrower's general or limited partner(s) (other than as permitted in Section 4.13 of the Construction Phase Credit Facility Provider Mortgage) other than in the ordinary course of business of said entity and other than those permitted under the terms of the Construction Phase Credit Reimbursement Agreement; or

26. Issuer or Bond Trustee declares any default, which default remains uncured after the expiration of all applicable cure periods, or mandatory redemption in connection with the Bonds or the Bond Documents, which mandatory redemption is not terminated prior to its occurrence, or the obligation to make payment on the debt evidenced by the Mortgage Note or Bonds is accelerated for any reason, which acceleration is not terminated prior to its occurrence; or

27. Subject to any applicable grace period, Borrower fails to perform or observe any term, covenant or agreement contained in any Bond Document or the Regulatory Agreement; or

28. Borrower or any general or limited partner of Borrower is dissolved, liquidated or terminated, or all or substantially all of the assets of Borrower or any general or limited partner of Borrower are sold or otherwise transferred without Construction Phase Credit Facility Provider's prior written consent; or

29. Any Bond Document is amended, or deemed to have been amended, without Construction Phase Credit Facility Provider's prior written consent, which shall not be unreasonably withheld, conditioned or delayed; or

30. Guarantor purports to revoke or terminate, or fails to perform its obligations under, the Payment and Performance Guaranty; or

31. Any event of default occurs under, or any termination of the Freddie Mac Commitment or the Seller/Servicer Commitment after the expiration, without cure, of any applicable notice and cure periods; or

32. Any "Borrower Default" occurs under the Construction Phase Financing Agreement; or

33. Conversion shall not have occurred, or the Conditions to Conversion (as defined in the Construction Phase Financing Agreement) shall have not have been satisfied, on or before the Forward Commitment Maturity Date (as defined in the Construction Phase Financing Agreement); or

34. Any application of Capital Contributions to uses not contemplated by the Budget have occurred or Borrower fails to cause the Tax Credit Investor to make all Capital Contributions in the amounts and at the times provided in Section 5.43 of the Construction Phase Credit Reimbursement Agreement; or

35. Any "Default" or "Event of Default" (as defined in any other Loan Document) occurs under any other Loan Document; or

36. The occurrence of a default by Borrower or a termination event with respect to Borrower under any swap, derivative, foreign exchange or hedge transaction or arrangement (or

similar transaction or arrangement howsoever described or defined) at any time entered into between Borrower and Construction Phase Credit Facility Provider in connection with the Letter of Credit; or

37. The occurrence of a default under any guaranty or hazardous materials indemnity now or hereafter executed in connection with the Letter of Credit, including without limitation any guarantor or indemnitor's failure to perform any covenant, condition or obligation thereunder; or

38. The Junior Loan, or any permanent loan, is terminated or any proceeds of the Junior Loan or any permanent loan are funded in a manner inconsistent with the Budget or the intended sources and timing of funding of moneys necessary in order to accomplish the payment of Project Costs and Conversion.

REMEDIES

Upon the occurrence of any Default under the Construction Phase Credit Reimbursement Agreement, Construction Phase Credit Facility Provider may, at its sole option, do any or all of the following:

(a) Terminate its consent to the disbursement or release of moneys from the Bond Proceeds Account, Project Account or the Equity Account of the Bond Mortgage Loan Fund;

(b) Declare the principal of all amounts owing under the Loan Documents, and all other indebtedness of the Borrower to Construction Phase Credit Facility Provider, together with all accrued interest thereon and all other amounts owing in connection therewith, to be immediately due and payable, regardless of any other specified maturity or due date, without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notice or demand of any kind, and without the necessity of prior recourse to any security; provided that any Default described in paragraphs 18 or 19, above, shall automatically, without declaration or other action on Construction Phase Credit Facility Provider's part, cause all such amounts to be immediately due and payable without notice or demand;

(c) Give notice to the Trustee of such Default and of Construction Phase Credit Facility Provider's determination to cause a mandatory redemption of the Bonds pursuant to Section 3.01(b)(ii) of the Indenture, whereupon the Trustee shall draw upon the Construction Phase Credit Facility in full and cause either a redemption of the Bonds pursuant to the Indenture or, if Construction Phase Credit Facility Provider shall so elect pursuant to the Indenture, a special purchase of the Bonds by Construction Phase Credit Facility Provider in lieu of such redemption;

(d) If the Default may be cured by Construction Phase Credit Facility Provider by taking actions or making payments of money, Construction Phase Credit Facility Provider shall have the right (but not the obligation), without waiving any right of foreclosure under the Credit Construction Phase Credit Facility Provider Mortgage or other Reimbursement Security Documents (as that term is defined in the Construction Phase Credit Reimbursement Agreement) which Construction Phase Credit Facility Provider may have by reason of such Default, to take such actions (including the retention of attorneys and the commencement or prosecution of actions on its own behalf or on behalf of the Borrower), make such payments and pay for the costs of such actions (including attorneys' fees and court costs) from its own funds; provided that the taking of such actions at Construction Phase Credit Facility Provider's expense or the making of such payments by Construction Phase Credit Facility Provider shall not be deemed to cure such Default, and the same shall not be cured unless and until the Borrower shall have reimbursed Construction Phase Credit Facility Provider for such payment, together with interest at the Default Rate (as that term is defined in the Construction Phase Credit Reimbursement Agreement);

(e) Without limitation upon any of Construction Phase Credit Facility Provider's other rights or remedies under the Construction Phase Credit Reimbursement Agreement or the other Loan Documents, upon the occurrence of a Default, the Borrower shall immediately deposit an amount equal to any amounts then available to be drawn under the Letters of Credit (as that term is defined in the Construction Phase Credit Reimbursement Agreement) in a special non-interest bearing account with Construction Phase Credit Facility Provider from which withdrawals may be made only with the written consent of Construction Phase Credit Facility Provider. To the extent that the Borrower fails to deliver such amount, the Borrower agrees that such amount shall be includable for all purposes in the amounts owing under the Construction Phase Credit Reimbursement Agreement. Without limitation upon the generality of the foregoing, the Borrower agrees that such amounts may be included in credit bids upon foreclosure of the liens of any or all of the Reimbursement Security Documents. The Borrower shall grant a security interest to Construction Phase Credit Facility Provider in and to such account and all funds therein, pursuant to a pledge and security agreement in form and content satisfactory to Construction Phase Credit Facility Provider, to secure the Secured Obligations (as that term is defined in the Construction Phase Credit Reimbursement Agreement), as long as the Letters of Credit remain in effect. The Borrower agrees to execute all documents required by Construction Phase Credit Facility Provider in connection with any such deposit in order to create, confirm, perfect, or permit Construction Phase Credit Facility Provider to realize upon, its security interests therein, and irrevocably grants to Construction Phase Credit Facility Provider a power of attorney, coupled with an interest, to execute all such documents;

(f) Exercise any and all of its rights under the Loan Documents or the Bond Documents, including foreclosure on any security, and exercise any other rights with respect to any security whether under the Reimbursement Security Documents or any other agreement or as provided by law, all in such order and in such manner as Construction Phase Credit Facility Provider in its sole discretion may determine;

(g) Upon the occurrence of a Default occasioned by the Borrower's failure to pay money to a third party as required by the Construction Phase Credit Reimbursement Agreement, Construction Phase Credit Facility Provider may, but shall not be obligated to (i) consent to payment of the required amount by a Disbursement from the Project Account or the Equity Account, or (ii) make such payment from funds of Construction Phase Credit Facility Provider. If such payment is made from funds in the Project Account or the Equity Account, the Borrower shall immediately deposit with Construction Phase Credit Facility Provider, upon written demand, an amount equal to such payment. If such payment is made from funds of Construction Phase Credit Facility Provider, the Borrower shall immediately repay such funds upon written demand of Construction Phase Credit Facility Provider. In either case, the Default with respect to which any such payment has been made by Construction Phase Credit Facility Provider shall not be deemed cured until such deposit or repayment (as the case may be) has been made by the Borrower to Construction Phase Credit Facility Provider;

(h) Upon five (5) days prior written notice to the Borrower, and with or without legal process, take possession of the Property and Improvements, remove the Borrower and all agents, employees and contractors of the Borrower from the Property and Improvements, complete the work of construction and market and sell or lease the Property and/or Improvements. For this purpose, the Borrower irrevocably appoints Construction Phase Credit Facility Provider as its attorney-in-fact, which agency is coupled with an interest. As attorney-in-fact, Construction Phase Credit Facility Provider may, in the Borrower's name, take or omit to take any action Construction Phase Credit Facility Provider may deem appropriate, including, without limitation, exercising the Borrower's rights under the Bond Documents and Loan Documents and all contracts concerning the Property and/or Improvements;

(i) If Construction Phase Credit Facility Provider determines at any time that the Improvements are not being constructed in accordance with the Plans and Specifications and any Governmental Authority's requirements, Construction Phase Credit Facility Provider may immediately cause all construction to cease on any of the Improvements affected by the condition of nonconformance. The Borrower shall thereafter not allow any construction work, other than corrective work, to be performed on any of the Improvements affected by the condition of nonconformance until such time as Construction Phase Credit Facility Provider notifies the Borrower in writing that the nonconforming condition has been corrected;

(j) Any funds expended by Construction Phase Credit Facility Provider in the exercise of its rights or remedies under the Construction Phase Credit Reimbursement Agreement and the other Loan Documents and Bond Documents shall be payable to Construction Phase Credit Facility Provider upon demand, together with interest at the Standard Rate from the date the funds were expended until the date of payment in full.

All of the rights and remedies provided to Construction Phase Credit Facility Provider in the Construction Phase Credit Reimbursement Agreement and the other Bond Documents and Loan Documents, together with those granted by law or at equity, are cumulative and may be exercised by Construction Phase Credit Facility Provider at any time. Construction Phase Credit

Facility Provider's exercise of any right or remedy shall not constitute a cure of any Default unless all sums then due and payable to Construction Phase Credit Facility Provider under the Bond Documents and Loan Documents are repaid and the Borrower has cured all other Defaults. No waiver shall be implied from any failure of Construction Phase Credit Facility Provider to take, or any delay by Construction Phase Credit Facility Provider in taking, action concerning any Default or failure of condition under the Bond Documents and Loan Documents, or from any previous waiver of any similar or unrelated Default or failure of condition. Any waiver or approval under any of the Bond Documents and Loan Documents must be in writing and shall be limited to its specific terms.

SUMMARY OF CERTAIN PROVISIONS OF THE INTERCREDITOR AGREEMENT

The following is a summary of certain provisions of the Intercreditor Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Intercreditor Agreement, a copy of which is on file with the Trustee.

The Issuer, Trustee, Freddie Mac and the Construction Phase Credit Facility Provider will agree upon their respective rights arising from an Event of Default under either the Bond Financing Documents or the Bond Mortgage Loan Documents in an Intercreditor Agreement, dated as of the date of the Indenture (the "*Intercreditor Agreement*"). Capitalized terms used under this heading and not defined hereunder or elsewhere in this Official Statement will have the meanings assigned thereto in the Intercreditor Agreement.

EXERCISE OF RIGHTS AND REMEDIES BY THE BANK AND FREDDIE MAC

Under the terms of the Intercreditor Agreement, the Issuer, the Trustee, Freddie Mac and the Construction Phase Credit Facility Provider will agree, among other things, that, (i) during the Construction Phase, until either the Bank has failed to honor a draw properly presented in accordance with the terms of the Construction Phase Credit Reimbursement Agreement or the insolvency of the Bank (a "*Construction Phase Wrongful Dishonor*") or the Construction Phase Credit Facility terminates in accordance with its terms and all of the Borrower's obligations to the Bank under the Construction Phase Credit Reimbursement Agreement shall have been paid in full, and (ii) during the Permanent Phase (as defined in the Intercreditor Agreement), until either the failure of Freddie Mac to honor a draw made in accordance with the terms of the Freddie Mac Reimbursement Agreement (a "*Wrongful Dishonor*"), or the Credit Enhancement Agreement terminates in accordance with its terms and all of the Borrower's obligations to Freddie Mac under the Freddie Mac Reimbursement Agreement shall have been paid in full, except for the exercise of remedies to preserve the tax exempt status of the Bonds and the Trustee's right to seek payment of certain fees due under the Financing Agreement:

(a) Neither the Trustee nor the Issuer may exercise any of its rights and remedies as beneficiary under the Bond Mortgage or as a secured party with respect to the liens and security

interests created by the Financing Agreement or take any action to cause a redemption or mandatory tender of the Bonds or to declare the outstanding balance of the Bonds or the Bond Mortgage Note to be due pursuant to the Indenture or the Financing Agreement or to foreclose the lien of the Bond Mortgage, to seek the appointment of a receiver or to collect rents or realize upon any other collateral held as security for the Bonds, declare a default or event of default, or file or join in the filing of any judicial proceeding to collect the indebtedness secured by the Bond Mortgage.

(b) Any and all consents and approvals of the Trustee as beneficiary required under the Bond Mortgage shall be given only with the prior written consent of the Bank (during the Construction Phase) and Freddie Mac (during the Permanent Phase), each in its sole discretion.

(c) The Bank (during the Construction Phase) and Freddie Mac (during the Permanent Phase), each in its sole discretion, shall have the sole right to direct the Trustee to waive or forebear any term, condition, covenant or agreement of the Bond Mortgage applicable to the Borrower, or any breach thereof, other than a covenant that might adversely impact the tax-exempt status of the Bonds.

(d) The Bank (during the Construction Phase) and Freddie Mac (during the Permanent Phase) shall control all of the Bond Mortgage Rights and the Bank or Freddie Mac (as applicable) shall have the right, power and the authority to direct the Trustee with respect to all decisions in connection with the Bond Mortgage, which pursuant to its terms may be made by the beneficiary, except that neither the Bank nor Freddie Mac shall not have the right to direct the Trustee to take or refrain from taking action that would adversely impact the tax-exempt status of the Bonds. “*Bond Mortgage Rights*” means, collectively, with respect to the Bond Mortgage Loan, all rights of the Issuer, the Trustee and/or the beneficiary under the Bond Mortgage (other than those rights specifically excluded in the Intercreditor Agreement) including, without limitation, the right to receive any and all Bond Mortgage Loan payments thereunder and all of the rights and interests under the Bond Mortgage, and to vest in its independent contract, including the Servicer, such rights, powers and authority as may be necessary to implement any of the foregoing. Bond Mortgage Rights does not mean, and expressly excludes, (a) certain of the Issuer’s rights under the Financing Agreement relating to the payment of fees and expenses, indemnification rights and rights relating to the tax-exempt status of the Bonds, (b) the right to receive payments relating to the redemption premium of a redeemed Bond, (c) the Issuer’s and the Trustee’s right to require the Borrower to pay rebate, meet continuing disclosure requirements and the rights to specifically enforce the Regulatory Agreement, and (d) the Trustee’s right to specifically enforce the Borrower’s obligations to make certain payments owing to the Trustee (fees and expenses, indemnification payments and rebate payments) pursuant to the Financing Agreement.

(e) The Trustee and the Issuer covenant and agree neither to file nor join in the filing of any involuntary petition involving the Borrower under the federal bankruptcy laws or other federal or state reorganization, receivership, insolvency or similar proceeding without the prior

written consent of the Bank (during the Construction Phase) or Freddie Mac (during the Permanent Phase).

(f) The Trustee and the Issuer irrevocably authorize the Bank (during the Construction Phase) or Freddie Mac (during the Permanent Phase) to take any action (but neither the Bank nor Freddie Mac has any obligation to take any such action, in which case the Trustee or the Issuer may proceed) with respect to any payment or distribution, whether in cash or securities, as the Bank or Freddie Mac (as applicable) may deem necessary or advisable for the enforcement of the provision of the Intercreditor Agreement.

(g) Upon the occurrence and during the continuation of a default by the Borrower under the Construction Mortgage (during the Construction Phase) or Reimbursement Mortgage (during the Permanent Phase), all amounts payable (including, but not limited to, any payment pursuant to an assignment of rents) under the Construction Mortgage or Reimbursement Mortgage (as applicable) shall be paid to the Bank (during the Construction Phase) (or the then owner of the Construction Mortgage) or Freddie Mac (during the Permanent Phase) (or the then owner of the Reimbursement Mortgage) in full before any payment or distribution, whether in cash or in other property, shall be made to Trustee or Issuer for the purpose of making Bond Mortgage Loan payments under the Financing Agreement. During the continuation of any default under the Construction Mortgage or Reimbursement Mortgage (as applicable), any payment or distribution, whether in cash or other property, which would otherwise (but for the provisions contained in the Intercreditor Agreement) be payable or deliverable under the Bond Mortgage, shall be paid or delivered directly to the Construction Phase Credit Facility Provider or Freddie Mac (as applicable) in satisfaction of any amounts payable (including, but not limited to, any payment pursuant to an assignment of rents) under the Construction Mortgage or Reimbursement Mortgage, as applicable (including any interest thereon accruing after the occurrence of any such default) until all such amounts shall have been paid in full or the default shall have been cured or waived by the Bank (during the Construction Phase) or Freddie Mac (during the Permanent Phase).

(h) If any payment of the rents or other revenues arising from an assignment of rents contained in the Bond Mortgage or distribution of security or the proceeds of any of the foregoing is collected or received by Issuer or Trustee in contravention of any term, condition or provision of the Intercreditor Agreement, Issuer or Trustee, as applicable, immediately will deliver the same to the Bank (during the Construction Phase) or Freddie Mac (during the Permanent Phase), in precisely the form received (except for the endorsement or the assignment by Issuer or Trustee, as applicable, where necessary), and, until so delivered, the same shall be held in trust by Issuer or Trustee, as applicable. The Issuer or Trustee shall not be required to deliver money paid by the Borrower pursuant to certain section of the Financing Agreement (other than money required to be paid to Freddie Mac or the Bank pursuant to the provisions of such sections) or any rebate payments due under the Indenture.

(i) The Trustee or Issuer shall not have any right to contest any of the procedures or actions taken by the Bank to exercise its remedies under the Credit Agreement or the

Construction Mortgage so long as the Bank is in compliance with its agreements under the Intercreditor Agreement, or Freddie Mac to exercise its remedies under the Reimbursement Agreement or the Reimbursement Mortgage so long as Freddie Mac is in compliance with its agreements under the Intercreditor Agreement.

If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in the Regulatory Agreement, certain provisions of the Financing Agreement, the Borrower's obligations to comply with continuing disclosure requirements or to make payments to the Trustee under certain provisions of the Financing Agreement and if such default remains uncured for a period of 60 days after Borrower and Freddie Mac and, prior to the Conversion Date, the Construction Phase Credit Facility Provider, receive written notice from the Trustee or Issuer stating that a default has occurred pursuant to the Regulatory Agreement, and specifying the nature of the default, the Issuer and the Trustee shall have the right to seek specific performance of the provisions of the Regulatory Agreement, or to exercise their other rights or remedies thereunder; *provided, however*, that the Trustee shall not have the right to accelerate the Bond Mortgage Note or the Bonds, to cause the mandatory tender or redemption of the Bonds, to foreclose under the Bond Mortgage or take any other remedial action under any of the other Bond Documents. The Trustee and the Issuer agree to refrain from the exercise of such permitted remedies if Freddie Mac or the Bank cures any such default by the Borrower within sixty (60) days after notice to Freddie Mac and the Bank, if such default is capable of being cured by the payment of money or, in the event of any other default, Freddie Mac or the Bank commences to cure such default and thereafter diligently proceeds with such cure.

EXERCISE OF RIGHTS AND REMEDIES BY TRUSTEE; TRANSFER OF BOND MORTGAGE LOAN

(a) During the Construction Phase, upon (a) the occurrence and during the continuation of a Construction Wrongful Dishonor, or (b) upon the termination or replacement of the Construction Phase Credit Facility in accordance with its terms, and no further indebtedness of the Borrower remains outstanding under the Construction Phase Credit Documents (the "*Construction Debt*"), the Bank shall not exercise the rights and remedies referred to in the Intercreditor Agreement without the prior written consent of the Trustee, and the actions set forth in the Intercreditor Agreement shall be taken by the Trustee in its sole discretion.

(b) During the Permanent Phase, upon (a) the occurrence and during the continuation of a Wrongful Dishonor, or (b) upon the termination or replacement of the Credit Enhancement Agreement in accordance with its terms, and no further obligations of the Borrower to Freddie Mac under the Freddie Mac Reimbursement Agreement remain outstanding, Freddie Mac shall not exercise the rights and remedies referred to in the Intercreditor Agreement without the prior written consent of the Trustee, and the actions set forth in the Intercreditor Agreement shall be taken by the Trustee in its sole discretion.

(c) During the Construction Phase, unless a Construction Wrongful Dishonor shall have occurred and be continuing, neither the Trustee nor the Issuer shall, without the prior

written consent of the Bank, dispose of the Bond Mortgage Loan or transfer the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage or any other related document or any right or interest in the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage or any other related document other than, in the case of the Trustee, to a successor Trustee pursuant to the terms of the Indenture. As a condition to the effectiveness of any such transfer to a successor trustee, the successor trustee must execute an assumption agreement with respect to this Agreement and the Indenture in form and substance acceptable to Freddie Mac and the Bank.

(d) During the Permanent Phase, unless a Wrongful Dishonor shall have occurred and be continuing, neither the Trustee nor the Issuer shall, without the prior written consent of Freddie Mac, dispose of the Bond Mortgage Loan or transfer the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage or any other related document or any right or interest in the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage or any other related document other than, in the case of the Trustee, to a successor Trustee pursuant to the terms of the Indenture. As a condition to the effectiveness of any such transfer to a successor trustee, the successor trustee must execute an assumption agreement with respect to the Intercreditor Agreement and the Indenture in form and substance acceptable to Freddie Mac.

SUMMARY OF CERTAIN PROVISIONS OF THE REGULATORY AGREEMENT

The following is a summary of certain provisions of the Regulatory Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Regulatory Agreement, a copy of which is on file with the Trustee.

DEFINITIONS

Unless otherwise expressly provided in the Regulatory Agreement or unless the context clearly requires otherwise, capitalized terms not defined in the Regulatory Agreement shall have the meanings given them in the Indenture.

“Adjusted Income” means the adjusted income of a person (together with the adjusted income of all persons who intend to reside with such person in one residential unit) as calculated in the manner prescribed in the Code as of the Closing Date.

“Affordability Restriction” means the 55-Year Affordability Restrictions, dated March 3, 2009, by the Borrower and the Issuer, in connection with a loan from the Issuer (not the proceeds of the Bonds), as amended and supplemented by the First Amendment to 55-Year Affordability Restrictions, dated October ____, 2009, by the Borrower and the Issuer, and as it may be further supplemented or amended from time to time.

“*Certificate of Continuing Program Compliance*” means the Certificate to be filed by the Borrower with the Issuer (or administrator appointed by the Issuer to administer the Regulatory Agreement) and the Trustee under the Regulatory Agreement, which shall be substantially in the form prescribed by the Regulatory Agreement.

“*Housing Act*” means the United States Housing Act of 1937, as amended, or its successor.

“*HUD*” means the United States Department of Housing and Urban Development.

“*Low Income Tenant*” means any tenant (i) whose Adjusted Income does not exceed the limits determined in a manner consistent with determinations of low income families under Section 8 of the Housing Act, provided that the percentage of median gross income that qualifies as Low Income shall not be greater than 60% of median gross income for the San José Primary Metropolitan Statistical Area, with adjustments for family size, and (ii) whose income does not exceed 60% or less of area median income as specified in and determined in accordance with the provisions of subsection (d) of Section 142 of the Code. If all the occupants of a unit are students (as defined under Section 151(e)(4) of the Code), no one of whom is entitled to file a joint return under Section 6013 of the Code, such occupants shall not qualify as Low Income Tenants. The determination of a tenant’s status as a Low Income Tenant shall be made by the Borrower upon the initial occupancy of a unit in the Project by such tenant, on the basis of an Income Certification (in the form prescribed by the Regulatory Agreement) executed by the tenant, and annually thereafter.

“*Low Income Units*” means the units in the Project required to be rented, or held available for occupancy, by Low Income Tenants pursuant to the provisions of the Regulatory Agreement.

“*Qualified Project Costs*” means Project Costs (excluding Costs of Issuance) incurred after the date which was 60 days prior to May 21, 2009, which either constitute land or property of a character subject to the allowance for depreciation under Section 167 of the Code or are chargeable to a capital account with respect to the Project for federal income tax and financial accounting purposes, or would be so chargeable either with a proper election by the Borrower or but for the proper election by the Borrower to deduct those amounts within the meaning of I.R.S. Regulation 1.103-8(a)(1)(i); provided, however, that only such portion of interest accrued during the construction of the Project shall constitute a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all costs of the Project financed with proceeds of the Bonds or other funds of the Borrower; and provided further that interest accruing after the date of completion of the acquisition and construction of the Project shall not be a Qualified Project Cost; and provided still further that if any portion of the Project is being constructed by an Affiliated Party (whether as a general contractor or a subcontractor), “Qualified Project Costs” shall include only (a) the actual out-of-pocket costs incurred by such Affiliated Party in constructing the Project (or any portion thereof), (b) any reasonable fees for supervisory services actually rendered by the affiliated party, and (c) any overhead expenses

incurred by the Affiliated Party which are directly attributable to the work performed on the Project, and shall not include, for example, intercompany profits resulting from members of an affiliated group (within the meaning of Section 1504 of the Code) participating in the construction of the Project or payments received by such Affiliated Party due to early completion of the Project (or any portion thereof).

“*Qualified Project Period*” means the period beginning on the first day on which at least 10% of the units in the Project are first occupied, and ending on the later of the following: (a) the date which is 15 years after the date on which at least 50% of the units in the Project are first occupied; (b) the first date on which no tax-exempt private activity bonds with respect to the Project are Outstanding; or (c) the date on which any assistance provided with respect to the Project under Section 8 of the Housing Act terminates; provided that, unless otherwise amended or modified in accordance with the terms of the Regulatory Agreement, the Qualified Project Period for purposes of the Regulatory Agreement shall be 55 years from the Closing Date, as required by the conditions of the California Debt Limit Allocation Committee or its successors as set forth in the Regulatory Agreement.

“*Regulations*” means the Income Tax Regulations of the Department of the Treasury applicable under the Code from time to time.

QUALIFIED RESIDENTIAL RENTAL PROJECT

The Borrower acknowledges and agrees in the Regulatory Agreement that the Project is to be owned, managed and operated as a “qualified residential rental project” (within the meaning of Section 142(d) of the Code) for a term equal to the Qualified Project Period. To that end, and for the term of the Regulatory Agreement, the Borrower has represented, covenanted, warranted and agreed as follows:

(a) The Project will be acquired, constructed and operated for the purpose of providing multifamily residential rental property. The Borrower will own, managed and operate the Project as a project to provide multifamily residential rental property comprised of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities, and no other facilities, in accordance with Section 142(d) of the Code, Section 1.103-8(b) of the Regulations and the provisions of the Act, and in accordance with such requirements as may be imposed thereby on the Project from time to time.

(b) All of the dwelling units in the Project will be similarly constructed units, and each dwelling unit in the Project will contain complete, separate and distinct facilities for living, sleeping, eating, cooking and sanitation for a single person or a family, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink.

(c) None of the dwelling units in the Project will at any time be utilized on a transient basis or rented for a period of less than 30 consecutive days, or will ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home or trailer court or park. Use of units in the Project by guests of tenants on an intermittent basis shall not be considered transient use for purposes of the Regulatory Agreement.

(d) No part of the Project will at any time during the Qualified Project Period be owned by a cooperative housing corporation, nor shall the Borrower take any steps in connection with a conversion to such ownership or use, and the Borrower will not take any steps in connection with a conversion of the Project to condominium ownership during the Qualified Project Period.

(e) All of the dwelling units in the Project (except for one unit set aside for a resident manager or other administrative use) will be available for rental during the Qualified Project Period on a continuous basis to members of the general public, and the Borrower will not give preference to any particular class or group in renting the dwelling units in the Project, except to the extent that dwelling units are required to be leased or rented to Low Income Tenants under the Regulatory Agreement or under the Affordability Restriction.

(f) The Project consists of a parcel or parcels that are contiguous except for the interposition of a road, street or stream, and all of the facilities of the Project comprise a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.

(g) No dwelling unit in the Project shall be occupied by the Borrower; however, if the Project contains five or more dwelling units, this provision shall not be construed to prohibit occupancy of not more than one dwelling unit by a resident manager or maintenance personnel any of whom may be the Borrower.

(h) Should involuntary noncompliance with the provision of Section 1.103-8(b) of the Regulations be caused by fire, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Issuer from enforcing the requirements of the applicable Regulations, or condemnation or similar event, the Borrower covenants that, within a "reasonable period" determined in accordance with the applicable Regulations, it will either prepay the Bonds or, if permitted under the provisions of the Financing Agreement, apply any proceeds received as a result of any of the preceding events to reconstruct the Project to meet the requirements of Section 142(d) of the Code and the applicable Regulations.

(i) The Borrower will not sell dwelling units within the Project.

(j) In accordance with Section 147(b) of the Code, the average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the facilities being financed by the Bonds.

The Issuer has elected to have the Project meet the requirements of Section 142(d)(1)(B) of the Code.

LOW INCOME TENANTS; REPORTING REQUIREMENTS

Pursuant to the requirements of the Code, the Borrower represents, warrants and covenants as follows:

(a) During the Qualified Project Period, no less than 40% of the total number of completed units in the Project shall at all times be rented to and occupied by Low Income Tenants. A vacant unit that was most recently occupied by a Low Income Tenant will be treated as rented and occupied by a Low Income Tenant until reoccupied, other than for a temporary period of not more than 31 days, at which time the character of such unit shall be redetermined.

(b) No tenant qualifying as a Low Income Tenant upon initial occupancy shall be denied continued occupancy of a unit in the Project because, after admission, such tenant's Adjusted Income increases to exceed the qualifying limit for Low Income Tenants. However, should a Low Income Tenant's Adjust Income, as of the most recent determination thereof, exceed 140% of the applicable income limit for a Low Income Tenant of the same family size, such Low Income Tenant who has ceased to qualify shall be deemed to continue to be a Low Income Tenant for purposes of the occupancy requirement of the Regulatory Agreement until a new Low Income Tenant occupies the unit as required by the Regulatory Agreement.

(c) For the Qualified Project Period, the Borrower will obtain, complete and maintain on file income certifications for each Low Income Tenant immediately prior to initial occupancy and thereafter, annually.

(d) The Borrower shall make a good faith effort to verify that the income information provided by an applicant is accurate by taking one or more of the steps listed in the Regulatory Agreement as part of the verification process.

(e) The Borrower will maintain complete and accurate records pertaining to the Low Income Units, and will permit any duly authorized representative of the Issuer, the Trustee, the Department of the Treasury or the Internal Revenue Service to inspect the books and records of the Borrower pertaining to the Project, including those records pertaining to the occupancy of the Low Income Units.

(f) The Borrower will prepare and submit to the Issuer (or administrator appointed by the Issuer) and the Trustee, at the end of each calendar quarter until the end of the Qualified Project Period, a Certificate of Continuing Program Compliance executed by the Borrower. The Borrower will also complete and file certain forms and certifications required under the Code and will submit a draft of such forms and certifications to the Issuer and the Trustee.

(g) Within 30 days after the date on which 10% of the dwelling units in the Project are occupied, the Borrower shall deliver to the Issuer and the Trustee a written notice specifying such date, and within 30 days after the date on which 50% of the dwelling units in the Project are occupied, the Borrower shall deliver to the Issuer and the Trustee a written notice specifying such date and the beginning and ending dates of the Qualified Project Period. The Borrower shall cause a copy of such notice to be recorded in the Official Records of the County of Santa Clara, California.

(h) For the Qualified Project Period, all tenant leases or rental agreements shall be subordinate to the Regulatory Agreement and the security instrument.

ADDITIONAL REQUIREMENTS OF THE ACT.

The Borrower further agrees with the Issuer and the Trustee in the Regulatory Agreement that it shall comply with each of the requirements of Section 52080 of the Act, including (but not limited to) the following:

(a) Not less than 40% of the total number of units in the Project shall be available for occupancy on a priority basis to Low Income Tenants. The units made available to meet this requirement shall be of comparable quality (including comparable amenities, furnishings and appliances) and offer a range of sizes and numbers of bedrooms comparable to the units that are available to other tenants in the Project.

(b) The rental payments for Low Income Units paid by the tenants thereof (excluding any supplemental rental assistance from the State, the federal government or any other public agency to those tenants or on behalf of those units) shall not exceed 30% of an amount equal to 60% of the median adjusted gross income for the Area.

(c) The Borrower shall accept as tenants, on the same basis as all other prospective tenants, low-income persons who are recipients of federal certificates or vouchers for rent subsidies pursuant to the existing program under Section 8 of the Housing Act. The Borrower shall not permit any selection criteria to be applied to Section 8 certificate or voucher holders that is more burdensome than the criteria applied to all other prospective tenants.

(d) The unit reserved for occupancy as required by (a) above shall remain available on a priority basis for occupancy at all times during the Qualified Project Period.

(e) During the three (3) years prior to the expiration of the Qualified Project Period, the Borrower shall continue to make available to eligible households Low Income Units that have been vacated to the same extent that nonreserved units are made available to noneligible households.

(f) Following the expiration or termination of the Qualified Project Period, except in the event of foreclosure and redemption of the Bonds, deed in lieu of foreclosure, eminent domain, or action of a federal agency preventing enforcement, units reserved for occupancy as required by subsection (a) above, until the earliest of (1) the household's income exceeds 140% of the maximum eligible income specified above, (2) the household voluntarily moves or is evicted for good cause (as defined in the Act), (3) 30 years after the date of the commencement of the Qualified Project Period, or (4) the Borrower pays the relocation assistance and benefits to the household as provided in Section 7264(b) of the California Government Code.

ADDITIONAL REQUIREMENTS OF THE ISSUER

In addition to the requirements set forth above and to the extent not prohibited thereby, the Borrower agrees with the Issuer and the Trustee to comply with each of the following requirements of the Issuer (among others):

(a) The Borrower shall pay or cause to be paid to the Issuer on the Closing Date, the "*Initial City Fee*" in an amount equal to \$59,000.00; and thereafter, without demand or notice, the Borrower shall pay to the Issuer (or other Administrator designated in writing by the Issuer) an annual monitoring fee (the "*Annual City Fee*"). The Annual City Fee shall be in an amount equal to \$17,000.00, representing 0.125% of the aggregate principal amount of the Bonds issued on the Closing Date, payable in equal semiannual installments of \$8,500.00, in advance, on each May 1 and November 1, commencing May 1, 2010. Under no circumstances shall the Annual City Fee exceed any limitation under Section 148 of the Code. The Annual City Fee shall be payable until the end of the Qualified Project Period.

(b) All tenants lists, applications and waiting lists relating to the Project shall at all times be kept separate and identifiable from any other business of the Borrower and shall be maintained as required by the Issuer, in a reasonable condition for proper audit and subject to examination during business hours by representatives of the Issuer (including the Administrator).

(c) The Borrower shall submit to the Issuer, within fifteen (15) days after receipt of a request therefor, any information or completed forms requested by the Issuer in order to comply with reporting requirements of the Internal Revenue Service or the State.

(d) The Borrower shall not discriminate on the basis of race, creed, color, religion, sex, source of income, sexual orientation, marital status, national origin, ancestry or handicap in the lease, use or occupancy of the Project or in connection with the employment or application for employment of persons for the construction, operation or management of the Project, and will not discriminate on the basis of household size as long as the tenants meet the household size standards of Section 8 of the Housing Act. Further, the Borrower shall not permit occupancy in any unit in the Project by more persons than is permissible under the Section 8 household size standards.

(e) The Borrower acknowledges that the Issuer may appoint an Administrator other than the Issuer to administer the Regulatory Agreement and to monitor performance by the Borrower of the terms, provisions and requirements thereof. In such event, the Borrower shall comply with any reasonable request by the Issuer to deliver to any such Administrator, in addition to or instead of the Issuer, any reports, notices or other documents required to be delivered pursuant to the Regulatory Agreement, and make the Project and the books and records with respect thereto available for inspection by the Administrator as an agent of the Issuer.

(f) To the extent permitted by law, the Borrower will make the units reserved pursuant to paragraph (a) under the heading “ADDITIONAL REQUIREMENTS OF THE ACT” above available on a priority basis to households comprised of persons whom (i) the Issuer has informed the Borrower have been displaced by the Issuer or its political subdivisions from other developments located with San José or (ii) are currently living or working in San José or who can demonstrate they previously resided in San José. The Borrower shall not discriminate against tenant applicants on the basis of source of income (*i.e.*, AFDC or SSI), and the Borrower shall consider a prospective tenant’s previous rent history of at least one year as evidence of such tenant’s ability to pay the applicable rent for the unit to be occupied (ability to pay shall be demonstrated if the tenant can show that the tenant has paid on time the same percentage or more of the tenant’s income for rent as the tenant would be required to pay for the rent applicable to the unit to be occupied); provided that such tenant paid the same percentage or more of such tenant’s income for rent as such tenant will be paying under the proposed lease. The Borrower may consider such factors as it deems important when reviewing and approving a tenant’s application for occupancy and an existing tenant’s continued occupancy.

(g) If a Low Income Tenant’s Adjusted Income, as of the most recent determination thereof, exceeds 140% of the applicable income limit for a Low Income Tenant of the same family size, the tenancy of such Low Income Tenant shall, to the extent permitted by law, be terminated as soon as legally possible and the available unit shall within a reasonable time be rented to (or held vacant and available for immediate occupancy by) a Low Income Tenant.

(h) In addition, the Borrower shall comply with the conditions set forth in Exhibit A to CDLAC Resolution No. 09-60, adopted on July 22, 2009 (the “*CDLAC Conditions*”), as they may be modified or amended from time to time, which conditions are incorporated in the Regulatory Agreement by reference and made a part thereof. The Borrower will prepare and submit to CDLAC, not later than each anniversary of the Closing Date until the end of the Qualified Project Period, a Certification of Compliance, in substantially the form attached to the CDLAC Conditions, executed by an authorized representative of the Borrower. The Issuer and the Administrator shall have no obligation to monitor the Borrower’s compliance with the CDLAC Conditions.

(i) In addition, the Borrower shall comply with the Affordability Restriction.

(j) The Borrower agrees to maintain the Project, or cause the Project to be maintained, during the term of the Regulatory Agreement (i) in a reasonably safe condition and

(ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof such that the Project shall be substantially in the same condition at all times as the condition it is in at the time of the completion of the construction of the Project with the proceeds of the Bonds.

SALE OR TRANSFER OF THE PROJECT

For the Qualified Project Period, the Borrower shall not, except as provided below, sell, transfer or otherwise voluntarily dispose of the Project, in whole or in part, without the prior written consent of the Issuer and the Trustee, which consent shall not be unreasonably withheld or delayed if the following conditions are satisfied: (A) the Issuer and the Trustee have received evidence, reasonably acceptable to the Issuer and the Trustee, that (1) the Borrower shall not be in default under the Regulatory Agreement or under the Financing Agreement (which may be evidenced by a Certificate of Continuing Program Compliance) or the purchaser or assignee undertakes to cure any defaults of the Borrower to the reasonable satisfaction of the Issuer; (2) the continued operation of the Project shall comply with the provisions of the Regulatory Agreement; (3) either (a) the purchaser or assignee or its property manager has at least three years' experience in the ownership, operation and management of similar size rental housing projects, and at least one year's experience in the ownership, operation and management of rental housing projects containing below-market-rate units, without any record of material violations of discrimination restrictions or other state or federal laws or regulations or local governmental requirements applicable to such projects, or (b) the purchaser or assignee agrees to retain a property management firm with the experience and record described in subclause (a) above, or (c) the transferring Borrower or its management company will continue to manage the Project for at least one year following such transfer and during such period will provide training to the transferee and its manager in the responsibilities relating to the Low Income Units; and (4) the person or entity which is to acquire the Project does not have pending against it, and does not have a history of significant and material building code violations or complaints concerning the maintenance, upkeep, operation, and regulatory agreement compliance of any of its projects as identified by any local, state or federal regulatory agencies; (B) the execution by the purchaser or assignee of any document reasonably requested by the Issuer or the Trustee with respect to the assumption of the Borrower's obligations under the Regulatory Agreement and, if the Bonds are outstanding at the time of transfer, the Financing Agreement, including without limitation an instrument of assumption thereof, and delivery to the Issuer of an opinion of such purchaser or assignee's counsel to the effect that each such document and the Regulatory Agreement are valid, binding and enforceable obligations of such purchaser or assignee, subject to bankruptcy and other standard limitations affecting creditor's rights; (C) receipt by the Issuer of an opinion of Bond Counsel to the effect that any such sale, transfer or other disposition will not adversely affect the tax-exempt status of interest on the Bonds; and (D) receipt by the Issuer and Trustee of all fees and/or expenses then currently due and payable to the Issuer and Trustee under any of the Issuer Documents. Any sale, transfer or other disposition of the Project in violation of the Regulatory Agreement, other than pursuant to a foreclosure or deed in lieu of foreclosure following a default under the Financing Agreement or the Reimbursement Agreement, shall be

null, void and without effect, shall cause a reversion of title to the Borrower, and shall be ineffective to relieve the Borrower of its obligations under the Regulatory Agreement. Nothing in the Regulatory Agreement shall affect any provision of any other document or instrument between the Borrower and any other party which requires the Borrower to obtain the prior written consent of such other party in order to sell, transfer or otherwise dispose of the Project.

COVENANTS RUN WITH THE LAND

Notwithstanding Section 1461 of the California Civil Code, the Borrower has subjected the Project to the covenants, reservations and restrictions set forth in the Regulatory Agreement. The Issuer and the Borrower have declared their express intent that the covenants, reservations and restrictions set forth in the Regulatory Agreement shall be deemed covenants running with the land and shall pass to and be binding upon the Borrower's successor in title to the Project; provided, however, that on the termination of the Regulatory Agreement said covenants, reservations and restrictions shall expire without the necessity of further action. Each and every contract, deed or other instrument hereafter executed covering or conveying the Project or any portion thereof shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations and restrictions, regardless of whether such covenants, reservations and restrictions are set forth in such contract, deed or other instruments.

DEFAULT; ENFORCEMENT

(a) If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in the Regulatory Agreement, and if such default remains uncured for a period of 60 days after notice thereof shall have been given by the Issuer or the Trustee to the Borrower, or for a period of 60 days from the date the Borrower should, with reasonable diligence, have discovered such default, then the Issuer or the Trustee shall declare an "Event of Default" to have occurred under the Regulatory Agreement; provided, however, that if the default is of such a nature that it cannot be corrected within 60 days, such default shall not constitute an Event of Default thereunder so long as (i) the Borrower institutes corrective action within said 60 days and diligently pursues such action until the default is corrected, and (ii) in the opinion of Bond Counsel (filed with the Trustee and the Issuer), the failure to cure said default within 60 days will not adversely affect the tax-exempt status of interest on the Bonds. The Issuer and the Trustee shall have the right to enforce the obligations of the Borrower under the Regulatory Agreement within shorter periods of time than are otherwise provided herein if necessary to insure compliance with the Act or the Code.

(b) Following the declaration of an Event of Default under the Regulatory Agreement, the Issuer or the Trustee, consistent with the provisions of the Indenture and subject to the provisions of the Intercreditor Agreement, may take any one or more of the following steps, in addition to all other remedies provided by law or equity:

(i) by mandamus or other suit, action or proceeding at law or in equity, including injunctive relief, require the Borrower to perform its obligations and covenants under the Regulatory Agreement or enjoin any acts or things that may be unlawful or in violation of the rights of the Issuer or the Trustee thereunder;

(ii) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Project;

(iii) require the Borrower to pay to the Issuer an amount equal to the excess rent or other amounts received by the Borrower for any units in the Project that were in violation of the Regulatory Agreement during the period such violation continued (which payment shall not reduce the amount due under the Bond Mortgage Loan);

(iv) declare a default under the Financing Agreement and proceed with any remedies provided therein; and

(v) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower under the Regulatory Agreement.

The Borrower agrees in the Regulatory Agreement that specific enforcement of the Borrower's agreements contained in the Regulatory Agreement is the only means by which the Issuer may fully obtain the benefits of such agreements made by the Borrower therein, and the Borrower therefore agrees to the imposition of the remedy of specific performance against it in the case of any Event of Default by the Borrower thereunder.

(c) The Trustee, acting consistent with the provisions of the Indenture, shall have the right, in accordance with the Regulatory Agreement and the provisions of the Indenture, without the consent or approval of the Issuer, to exercise any or all of the rights or remedies of the Issuer thereunder; provided that prior to taking any such action, that Trustee shall give the Issuer written notice of its intended action. After the Indenture has been discharged, the Issuer may act on its own behalf to declare an "Event of Default" to have occurred and to take any one or more of the steps specified hereinabove to the same extent and with the same effect as if taken by the Trustee. The Trustee shall not be deemed to have knowledge of any default hereunder unless the Trustee shall have been specifically notified in writing of such default by the Issuer, (or the administrator) or by the owners of at least twenty-five percent (25%) of the Bonds outstanding.

No breach or default under the Regulatory Agreement shall defeat or render invalid the lien of the Bond Mortgage or any other mortgage or like encumbrance upon the Project or any portion thereof given in good faith and for value.

AMENDMENTS; WAIVERS

Except as therein provided, the Regulatory Agreement may be amended only by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County of Santa Clara, California, and only upon receipt by the Issuer and the Trustee of an opinion from Bond Counsel to the effect that such amendment will not adversely affect the tax-exempt status of interest on the Bonds and is not contrary to the provisions of the Act. Anything to the contrary contained in the Regulatory Agreement notwithstanding, the Issuer, the Trustee and the Borrower agree to amend the Regulatory Agreement to the extent required, in the opinion of Bond Counsel (filed with the Trustee), in order that interest on the Bonds remain tax-exempt. Any waiver of, or consent to, any condition under the Regulatory Agreement must be expressly made in writing.

TERM

The Regulatory Agreement and all and several of the terms thereof shall become effective upon the execution and delivery of the Regulatory Agreement, and shall remain in full force and effect for the period provided therein and shall terminate as to any provision not otherwise provided with a specific termination date and shall terminate in its entirety at the end of the Qualified Project Period, it being expressly agreed and understood that the provisions thereof are intended to survive the retirement of the Bonds and discharge of the Indenture and the Financing Agreement.

The terms of the Regulatory Agreement to the contrary notwithstanding, the Regulatory Agreement shall terminate and be of no further force and effect (i) in the event of involuntary noncompliance with the provisions of the Regulatory Agreement caused by fire or other casualty, seizure, requisition, change in a federal law or an action of a federal agency after the Closing Date, which prevents the Issuer and the Trustee from enforcing such provisions, or condemnation or (ii) foreclosure, transfer of title by deed in lieu of foreclosure (whereby a third party shall take possession of the Project), exercise of power of sale or a similar event, but only if, in the case of either (i) or (ii), within a reasonable period, either the Bonds are retired or amounts received as a consequence of such event are used to provide a project that meets the requirements hereof; provided, however, that the preceding provisions of this sentence shall cease to apply and the restrictions contained in the Regulatory Agreement shall be reinstated if, at any time subsequent to the termination of such provisions as the result of the foreclosure, the delivery of a deed in lieu of foreclosure, exercise of power of sale, or a similar event, the Borrower or any related person (within the meaning of Section 1.103-10(e) of the Regulations) obtains an ownership interest in the Project for federal income tax purposes. The Borrower agrees that, following any foreclosure, transfer of title by deed in lieu of foreclosure, exercise of power of sale or similar event, neither the Borrower nor any such related person as described above will obtain an ownership interest in the Project for federal tax purposes. Notwithstanding any other provision of the Regulatory Agreement, the Regulatory Agreement may be terminated upon agreement by the Issuer, the Trustee and the Borrower, upon receipt by the Issuer and the

Trustee of an opinion of Bond Counsel to the effect that such termination will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

FREDDIE MAC RIDER

During any period that Freddie Mac is the Credit Facility Provider for the Bonds, the Freddie Mac Rider, attached as an exhibit to the Regulatory Agreement, and made a part thereof by reference therein, will be in full force and effect. The Freddie Mac Rider contains the following provisions:

Indemnification. Inasmuch as the covenants, reservations and restrictions of the Regulatory Agreement run with the land, the indemnification obligations of the Borrower contained in the Regulatory Agreement will be deemed applicable to any successor in interest to the Borrower, but, it has been acknowledged and agreed, notwithstanding any other provision of the Regulatory Agreement to the contrary, that neither Freddie Mac nor any successor in interest to Freddie Mac will assume or take subject to any liability for the indemnification obligations of the Borrower for acts or omissions of the Borrower prior to any transfer of title to Freddie Mac, whether by foreclosure, deed in lieu of foreclosure or comparable conversion of the Bond Mortgage Loan. The Borrower shall remain liable under the indemnification provisions for its acts and omissions prior to any transfer of title to Freddie Mac. Freddie Mac shall indemnify the Issuer following acquisition of the Project by Freddie Mac, by foreclosure, deed in lieu of foreclosure or comparable conversion of the Bond Mortgage Loan, during, and only during, any ensuing period that Freddie Mac owns and operates the Project, *provided* that Freddie Mac's liability shall be strictly limited to acts and omissions of Freddie Mac occurring during the period of Ownership and operation of the Project by Freddie Mac. The Borrower shall remain liable under the Regulatory Agreement for its actions and omissions prior to any transfer of title to Freddie Mac.

Sale or Transfer. Restrictions on sale or transfer of the Project or of any interest in the Borrower, Issuer and/or Trustee consents, transferee agreements, transferee criteria and requirements, opinion requirements, assumption fees, transfer fees, penalties and the like shall not apply to any transfer of title to the Project to Freddie Mac or to a third party by foreclosure, deed in lieu of foreclosure or comparable conversion of the Bond Mortgage Loan or to any subsequent transfer by Freddie Mac following foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Bond Mortgage Loan. No transfer of the Project shall operate to release the Borrower from its obligations under the Regulatory Agreement. Nothing contained in the Regulatory Agreement shall affect any provision of the Bond Mortgage or any of the other Bond Mortgage Loan Documents that requires the Borrower to obtain the consent of Freddie Mac as a precondition to sale, transfer or other disposition of, or any direct or indirect interest in, the Project or of any direct or indirect interest in the Borrower, excluding transfers permitted by the Bond Mortgage. No covenant obligating the Borrower to obtain an agreement from any transferee to abide by all requirements and restrictions of the Regulatory Agreement shall have any applicability to a transfer to Freddie Mac upon foreclosure, deed-in-lieu of foreclosure or

comparable conversion of the Bond Mortgage Loan by Freddie Mac, or to any subsequent transfer by Freddie Mac following foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Bond Mortgage Loan. Any written consent to a sale or transfer obtained from the Issuer must be deemed to constitute conclusive evidence that the sale or transfer is not a violation of the transfer provisions.

Enforcement. Notwithstanding anything contained in the Regulatory Agreement or the Indenture to the contrary:

(i) the occurrence of an event of default under the Regulatory Agreement shall not, under any circumstances whatsoever, be deemed or constitute a default under the Bond Mortgage Loan Documents, except as may be otherwise specified in the Bond Mortgage Loan Documents;

(ii) neither the Issuer nor the Trustee may, upon the occurrence of an event of default under the Regulatory Agreement, seek, in any manner, to (a) cause or direct acceleration of the Bond Mortgage Loan, (b) enforce the Bond Mortgage Note, (c) foreclose on the Bond Mortgage, (d) cause the Trustee to redeem the Bonds or to declare the principal of the Bonds and the interest accrued on the Bonds to be immediately due and payable or (e) cause the Trustee to take any other action under any of the Bond Mortgage Loan Documents, any of the Bond Financing Documents or any other documents which action would or could have the effect of achieving any one or more of the actions, events or results described in the preceding clauses (a) through (d); and

(iii) the occurrence of an event of default under this Regulatory Agreement shall not impair, defeat or render invalid the lien of the Bond Mortgage.

No person other than Freddie Mac shall have the right to (a) declare the principal balance of the Bond Mortgage Note to be immediately due and payable or (b) commence foreclosure or other like action with respect to the Bond Mortgage. The Issuer and the Trustee acknowledge the foregoing limitations.

The foregoing prohibitions and limitations are not intended to limit the rights of the Issuer or the Trustee to specifically enforce the Regulatory Agreement or to seek injunctive relief in order to provide for the operation of the Project in accordance with the requirements of the Internal Revenue Code and state law. Accordingly, upon any default by the Borrower, but subject to the Intercreditor Agreement, the Issuer or the Trustee may seek specific performance of the Regulatory Agreement or enjoin acts which may be in violation of the Regulatory Agreement or unlawful, but neither the Issuer nor the Trustee may seek any form of monetary recovery from the Borrower, although the Issuer may seek to enforce a claim for indemnification, *provided* that no obligation of the Borrower under the Regulatory Agreement, including, without limitation, any indemnification obligation, any other obligation for the payment of money, any claim and any judgment for monetary damages against the Borrower,

occasioned by breach or alleged breach by the Borrower of its obligations under the Regulatory Agreement or otherwise, shall be secured by or in any manner constitute a lien on, or security interest in, the Project, whether in favor of the Issuer, the Trustee or any other person, and all such obligations shall be, and by the Freddie Mac Rider are, subordinate in priority, in right to payment and in all other respects to the obligations, liens, rights (including without limitation the right to payment) and interests arising or created under the Bond Mortgage Loan Documents. Accordingly, neither the Issuer nor the Trustee shall have the right to enforce any monetary obligation other than directly against the Borrower, without recourse to the Project. In addition, any such enforcement must not cause the Borrower to file a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Borrower under any applicable liquidation, insolvency, bankruptcy, rehabilitation, composition, reorganization, conservation or other similar law in effect now or in the future.

The obligations of any Borrower under the Regulatory Agreement shall be personal to the person who was the Borrower at the time that an event, including, without limitation, any default or breach of the Regulatory Agreement, occurred or was alleged to have occurred, and such person shall remain liable for any and all such obligations, including damages occasioned by a default or breach, even after such person ceases to be the Borrower of the Project. Accordingly, no subsequent Borrower of the Project shall be liable or obligated for the obligation of any prior Borrower (including the Borrower), including, but not limited to, any obligation for payment, indemnification or damages, for default or breach of the Regulatory Agreement or otherwise. The Borrower of the Project at the time the obligation was incurred, including any obligation arising out of a default or breach of the Regulatory Agreement, shall remain liable for any and all payments and damages occasioned by the Borrower even after such person ceases to be the Borrower of the Project, and no person seeking such payments or damages shall have recourse against the Project.

Under no circumstances shall the Issuer or the Trustee:

- (i) initiate or take any action which may have the effect, directly or indirectly, of impairing the ability of the Borrower to timely pay the principal of, interest on, or other amounts due and payable under, the Bond Mortgage Loan;
- (ii) interfere with or attempt to influence the exercise by Freddie Mac of any of its rights under the Bond Mortgage Loan, including, without limitation, Freddie Mac's remedial rights under the Bond Mortgage Loan Documents upon the occurrence of an event of default by the Borrower under the Bond Mortgage Loan; or
- (iii) upon the occurrence of an event of default under the Bond Mortgage Loan, take any action to accelerate or otherwise enforce payment or seek other remedies with respect to the Bond Mortgage Loan.

NO CONTINUING DISCLOSURE

During the time the Bonds bear interest at Variable Rates pursuant to the Indenture, the Bonds are exempt from the continuing disclosure requirements of Securities Exchange Act Rule 15c2-12(b)(5). Accordingly, no continuing disclosure with respect to the Bonds, the Borrower, Freddie Mac or the Issuer will be provided to the owners of the Bonds so long as the Bonds bear interest at Variable Rates. Pursuant to the Financing Agreement, the Borrower will covenant and agree that on and after adjustment of the Bonds to a Reset Rate or the Fixed Rate, it will comply with and carry out all of the provisions of a Continuing Disclosure Agreement between the Borrower and the Trustee to be executed and delivered as a condition precedent to the adjustment of the interest rate with respect to such Bonds to a Reset Rate or the Fixed Rate. To the extent that there is a continuing disclosure requirement of the Borrower pursuant to the Financing Agreement, the Issuer is not an obligated party.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Issuer and the Borrower have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to compliance by the Issuer and the Borrower with the above-referenced covenants, under present law, in the opinion of Bond Counsel, prior to any Reset Adjustment Date or Fixed Rate Adjustment Date (as such terms are defined in the Indenture), interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue code of 1986, as amended (the “Code”)), (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations and (iii) is not taken into account in computing “adjusted current earnings” as described below.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

In rendering its opinion, Bond Counsel will rely upon certifications of the Issuer and the Borrower with respect to certain material facts within the Issuer’s and the Borrower’s knowledge. Bond Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax (“AMT”) for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporation’s taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would generally include certain tax-exempt interest, but not interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

UNDERWRITING

RBC Capital Markets Corporation (the “Underwriter”), has entered into a Bond Purchase Agreement to purchase the Bonds at the price shown on the cover page hereof. For its services under the Bond Purchase Agreement, the Underwriter will be paid a fee in an amount equal to 0.445% of the principal amount of the Bonds, including the fees and expenses of its counsel. The Underwriter is also serving as Remarketing Agent for the Bonds and will receive fees in conjunction with that service.

The Bond Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased and that such obligations under such Bond Purchase Agreement to accept delivery of the Bonds are subject to certain terms and conditions, including the approval of certain legal matters by counsel and delivery of the Bonds. The public offering price of the Bonds may be changed from time to time at the discretion of the Underwriter. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trust) and certain dealer banks and banks acting as agent at prices lower than the prices set forth on the inside front cover page hereof.

The Borrower has agreed, pursuant to the Bond Purchase Agreement, to indemnify the Underwriter and the Issuer, and, pursuant to the Remarketing Agreement, to indemnify the Remarketing Agent, against certain liabilities relating to this Official Statement.

RATINGS

Moody's Investors Service, Inc. (the "*Rating Agency*") has assigned to the Bonds the ratings set forth on the cover hereof. The ratings reflect only the views of the rating agency, and an explanation of the significance of such ratings may be obtained from it. No assurance can be given that the ratings will be maintained for any given period of time or that the ratings may not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. The Underwriter and the Issuer have undertaken no responsibility after issuance of the Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

CERTAIN LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to an approving opinion of Quint & Thimmig LLP, San Francisco, California, as Bond Counsel. Certain legal matters will be passed upon for Freddie Mac by Katten Muchin Rosenman LLP, Washington, D.C., for the Borrower by Cox, Castle & Nicholson, LLP, San Francisco, California, and for the Underwriter by Chapman and Cutler LLP, San Francisco, California. Payment of the fees of certain counsel to the transaction is contingent upon the issuance and delivery of the Bonds as described herein.

LITIGATION

THE ISSUER

There is no litigation pending with respect to which the Issuer has been served with process or, to the knowledge of the Issuer, any threatened litigation against the Issuer that in any way questions or affects the validity of the Bonds or any proceedings or transactions relating to their issuance or remarketing.

THE BORROWER

There is no pending or, to the knowledge of the Borrower, any threatened litigation against the Borrower which in any way questions the validity of the Bonds or any proceedings or transactions relating to their issuance or remarketing, or that would materially adversely affect the Borrower's obligations under the Bond Documents.

The following paragraphs describe certain litigation affecting Pacific Housing, Inc., the Managing General Partner of the Borrower, and its President, Mark Adam Wiese. This litigation does not involve the Borrower's Co-General Partner, ROEM Brookwood Terrace Family, LLC (the "*Co-General Partner*"), Roem Development Corporation, the Sole Member and Manager of the Co-General Partner or any of their principals or other affiliates.

On February 24, 2009, Elena Argente, Patricia Argente, and Mauricio Argente filed a civil complaint and on August 6, 2009, Sheenah Martin filed a civil complaint against the owners and operators of Casa de Vallejo, a senior apartment complex located in the City of Vallejo. Each complaint alleged certain wrongful death and personal injury claims relating to a fire that occurred at Casa de Vallejo on August 15, 2008. Pacific Housing, Inc and Mark Adam Wiese, among others, were named as defendants in each complaint.

Casa de Vallejo is owned by Vallejo Housing Partners, L.P. (the "*Casa de Vallejo Partnership*") and Amerland/Vallejo, LLC is the co-general partner of, and Pacific Housing, Inc. is the managing general partner of the Casa de Vallejo Partnership. Mark Adam Wiese is the President of Pacific Housing, Inc. The insurance company for the Casa de Vallejo Partnership has confirmed that it will provide a defense for Pacific Housing, Inc., Mark Adam Wiese and certain other defendants with respect to these complaints. No assurance can be given that this litigation will not have a material adverse effect on Pacific Housing Inc. or Mark Adam Wiese.

The Borrower believes that in the event Pacific Housing, Inc. is unable to continue to serve as the Managing General Partner as a result of an unfavorable outcome in this litigation or otherwise, the Borrower would be able to locate another qualified California non-profit corporation to assume this role on acceptable terms; however, if Pacific Housing, Inc. were to cease serving in its role as Managing General Partner of the Borrower and a qualified substitute nonprofit managing general partner could not be found and admitted to the partnership in a timely manner, the eligibility of the Project for relief from real estate taxation under California law could be lost, which could have a material adverse effect on Project operations.

CONFLICTS OF INTEREST

Some or all of the fees of the Underwriter, Underwriter's counsel and Bond Counsel are contingent upon the issuance and sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Underwriter in transactions unrelated to the issuance of the Bonds.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee and the owners of the Bonds upon an Event of Default under the Indenture, the Financing Agreement, the Credit Enhancement Agreement, if delivered, or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

MISCELLANEOUS

Any statements herein 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 Issuer or the Underwriter and the purchasers or owners of any of the Bonds.

[Remainder of Page Left Blank Intentionally]

[Borrower's Signature Page to Official Statement]

BROOKWOOD TERRACE FAMILY APARTMENTS,
L.P., a California limited partnership

By: Pacific Housing, Inc.,
a California nonprofit public benefit
corporation,
Its Managing General Partner

By: _____
Mark A. Wiese
President

By: ROEM Brookwood Terrace Family, LLC,
a California limited liability company,
its Co-General Partner

By: Roem Development Corporation,
a California corporation,
Its Sole Member and Manager

By: _____
Jonathan Emami
Vice President

APPENDIX A

DEFINITIONS OF CERTAIN TERMS

The following terms, as used in this Official Statement, have the respective meanings provided below (unless otherwise defined in this Official Statement).

“*Act*” means Chapter 7 of Part 5 of Division 31 (commencing with Section 52075) of the California Health and Safety Code as now in effect and as the same may from time to time hereafter be amended and supplemented.

“*Administration Fund*” means the Administration Fund established by the Trustee.

“*Advance*” has the meaning set forth in the Credit Enhancement Agreement.

“*Affiliate*” as applied to any person, means any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this definition, “control” (including with correlative meanings, the terms “*controlling*”, “*controlled by*” an “*under common control with*”), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, partnership interests or by contract or otherwise.

“*Alternate Credit Facility*” means a letter of credit, surety bond, insurance policy, standby purchase agreement, guaranty, mortgage backed security or other credit facility, collateral purchase agreement or similar agreement issued by a financial institution (including without limitation Freddie Mac) which provides security for payment of (i) the principal of and interest on the Bonds (but in no case less than all of the Outstanding Bonds when due) or (ii) the Bond Mortgage Loan in an amount not less than the Guaranteed Payment, which Alternate Credit Facility is provided in accordance with the Financing Agreement. Neither the Letter of Credit (including any extension or renewal thereof), nor the Credit Enhancement Agreement is an “Alternate Credit Facility.”

“*Alternate Credit Facility Provider*” means the provider of an Alternate Credit Facility.

“*Authorized Denomination*” means, (i) with respect to Bonds during any Variable Period, \$100,000 principal amount or any integral multiple of \$5,000 greater than \$100,000, and (ii) with respect to Bonds during any Reset Period or the Fixed Rate Period, \$5,000 principal amount or any integral multiple thereof.

“*Authorized Officer*” means (i) when used with respect to the Issuer, the Issuer’s City Manager, Director of Finance, Assistant Director of Finance, Debt Administrator, Director of Housing or any officer or employee of the Issuer designated to perform a specified act, to sign a specified document or to act generally, on behalf of the Issuer by a written certificate furnished to the Trustee, which certificate is signed by an Authorized Officer of the Issuer and contains the

specimen signature of such other office or employee of the Issuer, (ii) when used with respect to the Borrower, the managing general partner of the Borrower and such additional person or persons, if any, duly designated by the Borrower in writing to act on its behalf, (iii) when used with respect to the Trustee, any authorized signatory of the Trustee, or any person who is authorized in writing to take the action in question on behalf of the Trustee, (iv) when used with respect to the Servicer, any Executive Vice President or Senior Vice President of the Servicer and such additional person or persons, if any, duly designated by the Servicer in writing to act on its behalf, (v) when used with respect to the Remarketing Agent, any Vice President or Director of the Remarketing Agent and such additional person or persons, if any, duly designated by the Remarketing Agent in writing to act on its behalf, (vi) when used with respect to the Tender Agent, any authorized signatory of the Tender Agent and such additional person or persons, if any, duly designated by the Tender Agent in writing to act on its behalf, (vii) when used with respect to the Credit Facility Provider, any person who is authorized in writing to take the action in question on behalf of the Credit Facility Provider (viii) prior to Conversion, when used with respect to Freddie Mac, any person who is authorized in writing to take the action in question on behalf of Freddie Mac and (ix) when used with respect to the Construction Phase Credit Facility Provider, any person who is authorized in writing to take the action in question on behalf of the Construction Phase Credit Facility Provider.

“*Bank*” means JPMorgan Chase Bank, N.A., its successors and assigns.

“*Bankruptcy Code*” means Title 11 of the United States Code entitled “Bankruptcy,” as now and hereafter in effect, or any successor federal statute.

“*Bond*” or “*Bonds*” means the Issuer’s Variable Rate Demand Multifamily Housing Revenue Bonds (Brookwood Terrace Family Apartments) Series 2009B in the original aggregate principal amount of \$13,600,000 issued pursuant to the Indenture.

“*Bond Counsel*” means (i) Quint & Thimmig LLP, or (ii) any other firm of attorneys selected by the Issuer experienced in matters relating to the issuance of obligations by states and their political subdivisions that is listed as municipal bond attorneys in The Bond Buyer’s Municipal Marketplace and that is acceptable to the Credit Facility Provider.

“*Bond Documents*” means, collectively, the Indenture, the Bonds, the Intercreditor Agreement, the Remarketing Agreement, the Tax Certificate and the Bond Mortgage Loan Documents and any other agreements and documents relating to the Bonds.

“*Bond Fee Component*” means the regular, ongoing fees due from time to time to the Issuer, the Trustee, the Remarketing Agent, the Custodian and the Tender Agent, expressed in terms of a percentage of the principal amount of Outstanding Bonds (including Purchased Bonds) on an annual basis. Any increase in the regular fee of the Remarketing Agent due to a failure to timely replace a resigning Remarketing Agent shall not be included within the Bond Fee Component. Also, the Issuer Fee is equal to 0.125% of the initial principal amount of the Bonds, such that if a portion of the principal of the Bonds is repaid by means of maturity or

earlier redemption, an amount equal to one-eighth of one percent of the Outstanding principal amount of the Bonds shall constitute a portion of the Bond Fee Component, and the Issuer Fee in excess of such amount shall be paid by the Borrower to the Trustee as required by the Financing Agreement.

“Bond Financing Documents” means, collectively, the Indenture, the Bonds, the Financing Agreement, the Remarketing Agreement and the Bond Mortgage Loan Documents.

“Bond Fund” means the Bond Fund established by the Trustee pursuant to the Indenture.

“Bond Mortgage” means, collectively, the First Multifamily Fee Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), and the First Multifamily Leasehold Deed of Trust, Assignments of Rents, Security Agreement and Fixture Filing (California), together with, in each case, all riders and addenda thereto, from the City of San José Financing Authority and the Borrower, respectively, for the benefit of the Issuer, and assigned in the Financing Agreement by the Issuer to the Trustee, with each securing payment of the Bond Mortgage Loan, as each such Bond Mortgage may from time to time be amended, modified or supplemented.

“Bond Mortgage Loan” means the loan made by the Issuer to the Borrower pursuant to the Financing Agreement for the purpose of providing funds to the Borrower to finance costs of the acquisition and construction of the Project.

“Bond Mortgage Loan Documents” means the Bond Mortgage, the Bond Mortgage Note, the Financing Agreement, the Regulatory Agreement, any Custodial Escrow Agreement, the Credit Facility, the Freddie Mac Reimbursement Agreement, the Reimbursement Mortgage, the Intercreditor Agreement and any and all other instruments and other documents evidencing, securing, or otherwise relating to the Bond Mortgage Loan, or any portion thereof, or to the Borrower’s reimbursement obligations to the Credit Facility Provider.

“Bond Mortgage Loan Fund” means the Bond Mortgage Loan Fund established by the Trustee pursuant to the Indenture.

“Bond Mortgage Note” means the Bond Mortgage Note dated the Delivery Date made by the Borrower to the order of the Issuer in the principal amount of \$13,600,000, together with all riders and addenda thereto, evidencing the Bond Mortgage Loan, as such Bond Mortgage Note may from time to time be amended, modified or supplemented, as such Bond Mortgage Note has been assigned by the Issuer to the Trustee.

“Bond Purchase Fund” means the Bond Purchase Fund established by the Tender Agent pursuant to the Indenture.

“Bond Register” means the books or other records maintained by the Bond Registrar setting forth the registered Holders from time to time of the Bonds.

“*Bond Registrar*” means the Trustee acting as such, and any other bond registrar appointed pursuant to the Indenture.

“*Bond Year*” means the period commencing on the Delivery Date and ending on October 31, 2010 and each twelve month period thereafter commencing on November 1 and ending on October 31 of the following year so long as any Bonds remain outstanding.

“*Bondholder*” or “*Holder*” or “*owner of the Bonds*” or “*registered owner*” means any person who shall be the owner of any Bond or Bonds as shown on the Bond Register.

“*Borrower*” means Brookwood Terrace Family Apartments, L.P., a California limited partnership, or any of its permitted successors or assigns as owner of the Project.

“*Business Day*” means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which the Federal Reserve Bank of New York (or other agent acting as the Credit Facility Provider’s fiscal agent identified to the Trustee) is closed, (iv) a day on which the Principal Office of the Credit Facility Provider, or, while Freddie Mac is the Credit Facility Provider, the southeastern regional office or the permanent home office, is closed or (v) a day on which (a) banking institutions in the City of New York or in the city in which the Principal Office of the Trustee, the Principal Office of the Tender Agent, or the Principal Office of the Remarketing Agent or the Principal Office of the Credit Facility Provider is located are authorized or obligated by law or executive order to be closed or (b) the New York Stock Exchange is closed.

“*Cap Fee Escrow*” has the meaning given to the term “Hedge Fee Escrow” in the Freddie Mac Reimbursement Agreement.

“*Certificate of the Issuer*,” “*Statement of the Issuer*,” “*Request of the Issuer*” and “*Requisition of the Issuer*” mean, respectively, a written certificate, statement, request or requisition signed in the name of the Issuer by an Authorized Officer of the Issuer or such other Person as may be designated and authorized to sign for the Issuer. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

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

“*Conditions to Conversion*” has the meaning given to that term in the Construction Phase Financing Agreement.

“*Construction Phase*” has the meaning given to that term in the Construction Phase Financing Agreement.

“*Construction Phase Credit Documents*” means, individually and collectively, the Construction Phase Financing Agreement, the Construction Phase Credit Reimbursement Agreement, the Letter of Credit and all other documents evidencing, securing or otherwise relating to the Letter of Credit, including all amendments, modifications, supplements and restatements of such documents.

“*Construction Phase Credit Facility*” means the Letter of Credit or any replacement construction phase credit facility acceptable to the Credit Facility Provider.

“*Construction Phase Credit Facility Provider*” means the Bank, as provider of the initial Credit Facility, and its successors and assigns, or so long as any Alternate Credit Facility is in effect prior to the Conversion Date, the Credit Facility Provider then obligated under the Alternate Credit Facility.

“*Construction Phase Credit Reimbursement Agreement*” means the Reimbursement Agreement between the Borrower and the Construction Phase Credit Facility Provider, as such agreement may be amended, modified, supplemented or restated from time to time.

“*Construction Phase Credit Reimbursement Agreement*” means the Reimbursement Agreement dated as of November 1, 2009 between the Borrower and the Bank, as such agreement may be amended, modified, supplemented or restated from time to time.

“*Construction Phase Financing Agreement*” means the Construction Phase Financing Agreement, dated as of November 1, 2009 by and among Freddie Mac, the Servicer and the Bank, as such agreement may be amended, modified, supplemented or restated from time to time.

“*Conversion*” means the conversion of the Bond Mortgage Loan from the Construction Phase to the Permanent Phase.

“*Conversion Date*” means the date specified as such in the Conversion Notice, which date must be at least fifteen days following the date on which the Conversion Notice is issued, and, during any Variable Period, which date must be the beginning date of a Variable Interest Accrual Period.

“*Conversion Notice*” means a written notice by the Servicer to the Issuer, the Trustee, the Borrower, the Bank and Freddie Mac given prior to the Forward Commitment Maturity Date (a) stating that each of the Conditions to Conversion has been satisfied prior to the Forward Commitment Maturity Date or, if any Condition to Conversion has not been satisfied prior to the Forward Commitment Maturity Date, has been waived in writing by Freddie Mac prior to the Forward Commitment Maturity Date, and (b) specifying the Conversion Date.

“*Cost,*” “*Costs*” or “*Costs of the Project*” means costs paid with respect to the Project that are (i) properly chargeable to capital account (or would be so chargeable with a proper

election by the Borrower or but for a proper election by the Borrower to deduct such costs) in accordance with general Federal income tax principles and in accordance with United States Treasury Regulations Section 1.103 8(a)(1), (ii) are paid with respect to a qualified residential rental project or projects within the meaning of Section 142(d) of the Code, (iii) are paid after the earlier of 60 days prior to May 21, 2009 (being the date of the Issuer's Director of Finance and Director of Housing executed a declaration expressing the intent of the City to issue tax-exempt debt to provide financing for the Project), and (iv) if the Costs of the Project were previously paid and are to be reimbursed with proceeds of the Bonds such costs were (A) costs of issuance of the Bonds, (B) preliminary capital expenditures (within the meaning of United States Treasury Regulations Section 1.150 2(f)(2)) with respect to the Project (such as architectural, engineering and soil testing services) incurred before commencement of acquisition or rehabilitation of the Project that do not exceed twenty percent (20%) of the issue price of the Bonds (as defined in United States Treasury Regulations Section 1.148 1), or (C) were capital expenditures with respect to the Project that are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the Project is placed in service (but no later than three (3) years after the expenditure is paid); *provided however*, that if any portion of the Project is being constructed or developed by the Borrower or an Affiliate (whether as a developer, a general contractor or a subcontractor), "Cost," "Costs" or "Costs of the Project" shall include only (a) the actual out of pocket costs incurred by the Borrower or such Affiliate in developing or constructing the Project (or any portion thereof), (b) any reasonable fees for supervisory services actually rendered by the Borrower or such Affiliate (but excluding any profit component) and (c) any overhead expenses incurred by the Borrower such Affiliate which are directly attributable to the work performed on the Project, and shall not include, for example, intercompany profits resulting from members of an affiliated group (within the meaning of Section 1504 of the Code) participating in the construction or development of the Project or payments received by such Affiliate due to early completion of the Project (or any portion thereof).

"*Costs of Issuance*" means (i) the fees (excluding ongoing fees), costs and expenses of (a) the Issuer, the Issuer's counsel and the Issuer's financial advisor, (b) the Underwriter (including discounts to the Underwriter or other purchasers of the Bonds, other than original issue discount, incurred in the issuance and sale of the Bonds) and the Underwriter's counsel, (c) Bond Counsel, (d) the Trustee and the Trustee's counsel, (e) the Servicer and the Servicer's counsel, if any, (f) the Credit Facility Provider's counsel, (g) the Borrower's counsel and the Borrower's financial advisor, if any, (h) Freddie Mac's counsel (i) the Remarketing Agent and its counsel, (j) the Bank and its counsel, and (1) the Rating Agency (2) costs of printing the offering documents relating to the sale of the Bonds and (3) all other fees, costs and expenses directly associated with the authorization, issuance, sale and delivery of the Bonds, including, without limitation, printing costs, costs of reproducing documents, filing and recording fees.

"*Costs of Issuance Deposit*" means the deposit to be made by the Borrower with the Trustee on the Delivery Date for deposit to the Equity Account of the Costs of Issuance Fund, which deposit shall equal the amount as defined in the Indenture comprised of sources other than the proceeds of the Bonds.

“*Cost of Issuance Fund*” means the Cost of Issuance Fund established by the Trustee pursuant to the Indenture.

“*Credit Enhancement Agreement*” means, from and after the Conversion Date, the Credit Enhancement Agreement dated the Conversion Date between Freddie Mac and the Trustee, as such Credit Enhancement Agreement may from time to time be amended or supplemented. The Credit Enhancement Agreement shall be in substantially the form attached to the Construction Phase Financing Agreement.

“*Credit Facility*” means (i) prior to the Conversion Date, the Letter of Credit or any Alternate Credit Facility in effect prior to the Conversion Date and (ii) from and after the Conversion Date, the Credit Enhancement Agreement or any Alternate Credit Facility at that time in effect.

“*Credit Facility Provider*” means, (i) prior to the Conversion Date, the Construction Phase Credit Facility Provider, and (ii) from and after the Conversion Date, Freddie Mac, so long as the Credit Enhancement Agreement is in effect, or so long as any Alternate Credit Facility is in effect, the Credit Facility Provider then obligated under the Alternate Credit Facility.

“*Custodial Escrow Account*” means, collectively, the account or accounts established and held by the Servicer from and after the Conversion Date pursuant to the Guide or otherwise, for the purpose of funding (i) escrows for taxes, insurance and related payments and costs, if required by Freddie Mac, (ii) a reserve for replacements for the Project, if required by Freddie Mac, and (iii) a debt service reserve for the Bond Mortgage Loan, if required by Freddie Mac.

“*Custodial Escrow Agreement*” means any agreement (which agreement may be the Guide or Forward Commitment, as applicable) pursuant to which a Custodial Escrow Account is established and maintained.

“*Custodian*” means Wells Fargo Bank, National Association, not in its individual capacity but solely in its capacity as collateral agent for the Credit Facility Provider, and any successor in such capacity.

“*Delivery Date*” means the date of initial delivery of the Bonds to the initial purchasers thereof against payment therefor.

“*DTC*” means The Depository Trust Company, New York, New York, as securities depository for the Bonds pursuant to the Indenture.

“*Eligible Funds*” means (i) remarketing proceeds received from the Remarketing Agent or any purchaser (other than funds provided by the Borrower, any general partner, member or guarantor of the Borrower or the Issuer), (ii) proceeds received pursuant to the Credit Facility, (iii) proceeds of the Bonds received contemporaneously with the issuance and sale of the Bonds (including any Bond proceeds deposited to the Bond Mortgage Loan Fund on the Delivery

Date), (iv) proceeds from the investment or reinvestment of moneys described in clauses (i), (ii) and (iii) above or (v) money delivered to the Trustee and accompanied by a written opinion of Bond Counsel or nationally recognized counsel experienced in bankruptcy matters acceptable to the Rating Agency to the effect that if the Borrower, any general partner, member or guarantor of the Borrower, or the Issuer were to become a debtor in a proceeding under the Bankruptcy Code: (a) payment of such moneys to holders of the Bonds would not constitute a voidable preference under Section 547 of the Bankruptcy Code and (b) the automatic stay provisions of Section 362(a) of the Bankruptcy Code would not prevent application of such moneys to the payment of the Bonds.

“*Event of Default*” means any of those events specified in and defined by the applicable provisions of the Indenture to constitute an event of default.

“*Extraordinary Administrative Expenses*” means and includes, but not by way of limitation, any costs of litigation, investigation or audit by the IRS or other authority which may be reasonably incurred by the Issuer or the Trustee in connection with the Bonds or the Indenture, including the costs and fees of any attorney or other experts retained by the Issuer or the Trustee in connection therewith.

“*Extraordinary Services*” means and includes, but not by way of limitation, services, actions and things carried out and all expenses incurred by the Trustee in respect of or to prevent default under the Indenture and the Bond Mortgage Loan Documents, including any attorneys’ fees and other litigation costs that are entitled to reimbursement under the terms of the Financing Agreement, and other actions taken and carried out which are not expressly set forth in the Indenture.

“*Extraordinary Servicing Fees and Expenses*” means all fees and expenses of the Servicer under the Guide during any Bond Year in excess of Ordinary Servicing Fees and Expenses.

“*Extraordinary Trustee’s Fees and Expenses*” means all those fees, expenses and disbursements earned or incurred by the Trustee as described in the Indenture during any Bond Year for Extraordinary Services, as set forth in a detailed invoice to the Borrower.

“*Fair Market Value*” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “*Fair Market Value*” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (a) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (b) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the

Code, (c) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (d) the investment is the Local Agency Investment Fund of the State, but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“*Financing Agreement*” means the Financing Agreement, dated as of November 1, 2009, among the Borrower, the Issuer and the Trustee, as such Financing Agreement may from time to time be amended or supplemented.

“*Fixed Rate*” means the interest rate borne by the Bonds from and after the Fixed Rate Adjustment Date to the maturity date of the Bonds, determined in accordance with the Indenture.

“*Fixed Rate Adjustment*” means the establishment of the interest rate on the Bonds at the Fixed Rate, pursuant to the Indenture.

“*Fixed Rate Adjustment Date*” means the date on which the Fixed Rate for the Bonds becomes effective.

“*Fixed Rate Period*” means the period during which the Bonds bear interest at the Fixed Rate.

“*Forward Commitment*” means Freddie Mac’s commitment to the Servicer, accepted by the Servicer, pursuant to which Freddie Mac has agreed, upon satisfaction of the terms and conditions set forth in the Forward Commitment, to provide credit enhancement and liquidity support for the Bonds effective as of the Conversion Date.

“*Forward Commitment Maturity Date*” means December 1, 2011, unless extended by Freddie Mac in its sole discretion.

“*Freddie Mac*” means the Federal Home Loan Mortgage Corporation, a shareholder-owned government-sponsored enterprise organized and existing under the laws of the United States, and its successors and assigns.

“*Freddie Mac Credit Enhancement Fee*” has the meaning given to that term in the Freddie Mac Reimbursement Agreement.

“*Freddie Mac Reimbursement Agreement*” means, from and after the Conversion Date, the Reimbursement and Security Agreement, dated on or before the Conversion Date, between the Borrower and Freddie Mac (a form of which is attached to the Construction Phase Financing Agreement), as such Reimbursement Agreement may be amended or supplemented from time to time.

“*Freddie Mac Reimbursement Amount*” has the meaning set forth in the Freddie Mac Reimbursement Agreement.

“*Government Obligations*” means investments meeting the requirements of clauses (a) or (b) of the definition of Qualified Investments herein.

“*Guaranteed Payment*” has the meaning provided in the Credit Enhancement Agreement.

“*Guide*” means the Freddie Mac Multifamily Seller/Service Guide, as the same may be amended, modified or supplemented from time to time.

“*Hedge Agreement*” means, prior to the Conversion Date, any agreement required by the Bank to be maintained by and after the Conversion Date, which satisfies the requirements of Article IV of the Freddie Mac Reimbursement Agreement.

“*Hedge Fee Escrow*” has the meaning given that term in the Freddie Mac Reimbursement Agreement.

“*Indenture*” means the Trust Indenture, as the same may have been from time to time amended or modified, together with any other indentures supplemental thereto.

“*Index Rate*” means a rate equal to the index of the weekly index rate resets of tax exempt variable rate issues included in a database maintained by Municipal Market Data, a Thomson Financial Services Company, or its successors, which meet specific criteria established by the Securities Industry and Financial Markets Association (“*SIFMA*”) Municipal Swap Index, or any successor to such index.

“*Intercreditor Agreement*” means the Intercreditor Agreement, dated on or before the Delivery Date, among the Issuer, the Trustee, Freddie Mac and the Bank, as the same may be amended or supplemented.

“*Interest Component*” shall have the meaning provided in the definition of “*Required Bond Mortgage Payment*” and “*Guaranteed Payment*,” as applicable.

“*Interest Payment Date*” means December 1, 2009, and thereafter (i) for interest accrued during any Variable Period, the first Business Day of each month; (ii) for interest accrued during any Reset Period, May 1 and November 1 of each year, commencing on the May 1 or November 1 next following the applicable Reset Adjustment Date, (iii) for interest accrued on and after the Fixed Rate Adjustment Date, May 1 and November 1 of each year, commencing on the May 1 or November 1 next following the Fixed Rate Adjustment Date and (iv) on each Reset Adjustment Date, Variable Rate Adjustment Date or Fixed Rate Adjustment Date and on the maturity date of the Bonds.

“Interest Requirement” means (a) during the Variable Period, 35 days’ interest computed at the Maximum Rate, and (b) during a Reset Period or the Fixed Rate Period, 189 days’ interest computed at the Reset Rate or Fixed Rate, as applicable; or, in the case of either (a) or (b), such lesser number of days as may be acceptable to the Rating Agency, as confirmed in writing by the Rating Agency.

“Investment Income” means the earnings and profits derived from the investment of moneys pursuant to the Indenture.

“Issuer” means the City of San José, California, and its successors and assigns.

“Issuer Fee” means the annual fee of the Issuer equal to 0.125% of the initial principal amount of the Bonds, payable by the Borrower in equal semiannual installments on each May 1 and November 1, commencing May 1, 2010. The term “Issuer Fee” does not include the amount payable by the Borrower on the Delivery Date in accordance with the Financing Agreement.

“Letter of Credit” means the unconditional irrevocable direct pay letter of credit provided by the Construction Phase Credit Facility Provider as the initial Credit Facility on or before the Delivery Date pursuant to the Construction Phase Financing Agreement and includes any Alternate Credit Facility which may be in place during the Construction Phase.

“Liquidity Advance” means an advance by the Credit Facility Provider pursuant to the terms of the Credit Facility to pay the Purchase Price of any Bonds tendered optionally by Bondholders pursuant to the Indenture which have not been remarketed by the Remarketing Agent pursuant to the Remarketing Agreement and Indenture and therefore, with respect to which there are no proceeds of remarketing.

“Liquidity Rate” means the base rate or prime rate of interest of the bank indicated by Freddie Mac, until such time as another “Money Center” bank is designated by Freddie Mac in its discretion by notice to the Borrower, plus a spread specified in the Freddie Mac Reimbursement Agreement.

“Liquidity Use Fee” means, with respect to each Liquidity Advance and each Liquidity Withdrawal, an amount equal to (a) the amount of the Liquidity Advance or Liquidity Withdrawal multiplied by (b) the Liquidity Rate and (c) further multiplied by a fraction, the numerator of which is the number of days that such Liquidity Advance or Liquidity Withdrawal is outstanding (*i.e.*, until Freddie Mac is reimbursed) and the denominator of which is 365 days or 366 days, as applicable. The Liquidity Use Fee is to be reduced by an amount equal to the Freddie Mac Credit Enhancement Fee payable to Freddie Mac for the calculation period on the principal amount of Purchased Bonds.

“Liquidity Withdrawal” means a withdrawal from the Principal Reserve Fund to pay the Purchase Price of any Bonds tendered optionally by Bondholders pursuant to the Indenture.

“*Maturity Date*” means the maturity date of the Bonds set forth on the cover page of this Official Statement.

“*Maximum Rate*” means 12% per annum; *provided* that without amendment to any Bond Documents pursuant to the Indenture the Maximum Rate may be increased to a specified higher Maximum Rate if there have been delivered to the Trustee (a) an opinion of Bond Counsel to the effect that such higher Maximum Rate is permitted under applicable law and will not, in itself, cause the interest on the Bonds to be included in the gross incomes of the Bondholders for federal income tax purposes and (b) either (1) the written consent of the Credit Facility Provider to the specified higher Maximum Rate and evidence that the Credit Facility will cover the Interest Requirement at such Maximum Rate, or (2) a new or amended Credit Facility in an amount equal to the sum of (i) the principal amount of the Outstanding Bonds and (ii) the new Interest Requirement calculated using the new Maximum Rate; *provided, further*, that the Maximum Rate will never exceed the maximum rate permitted by applicable law to be paid on the Bonds or to be charged on the Bond Mortgage Loan.

“*Mode*” means any of the Variable Rate, the Reset Rate and the Fixed Rate.

“*Moody’s*” means Moody’s Investors Service, Inc., and its successors and assigns.

“*Net Bond Proceeds*” means the total proceeds derived from the issuance, sale and delivery of the Bonds, representing the total purchase price of the Bonds, including any premium paid as part of the purchase price of the Bonds, but excluding the accrued interest, if any, on the Bonds paid by the initial purchaser(s) of the Bonds.

“*Net Proceeds*” when used with respect to any insurance or condemnation award, means the proceeds from the insurance or condemnation award with respect to which that term is used remaining after payment of all reasonable expenses incurred in the collection of gross insurance proceeds or a condemnation award, including reasonable attorney fees.

“*Official Statement*” means this Official Statement dated November __, 2009 relating to the sale of the Bonds, as the same may be supplemented or amended.

“*Ordinary Servicing Fees and Expenses*” means the ordinary fees payable to the Servicer in connection with the servicing of the Bond Mortgage Loan, payable monthly in arrears on the first day of each month, commencing on the date and in an amount provided in the Forward Commitment.

“*Ordinary Trustee’s Fees and Expenses*” means the annual administration fee for the Trustee’s ordinary fees and expenses in rendering its services under the Indenture as Trustee during each twelve month period, which annual administration fee shall not exceed .05% per annum of the Outstanding principal amount of the Bonds.

“*Outstanding*” when used with respect to the Bonds or “*Bonds Outstanding*” means, as of any date, all Bonds that have been duly authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds surrendered and replaced upon exchange or transfer, or cancelled because of payment or redemption, at or prior to such date;

(b) Bonds for the payment, redemption or purchase for cancellation of which sufficient money has been deposited prior to such date with the Trustee (whether upon or prior to the maturity, amortization or redemption date of any such Bonds), or which are deemed to have been paid and discharged pursuant to the provisions of the Indenture; *provided*, that if such Bonds are to be redeemed prior to the maturity thereof, other than by scheduled amortization, notice of such redemption has been given or arrangements satisfactory to the Trustee have been made therefor, or waiver of such notice satisfactory in form to the Trustee has been filed with the Trustee; and

(c) Bonds in lieu of which others have been authenticated (or payment, when due, of which is made without replacement) under the Indenture; and also except that

(d) For the purpose of determining whether the holders of the requisite amount of Bonds Outstanding have made or concurred in any notice, request, demand, direction, consent, approval, order, waiver, acceptance, appointment or other instrument or communication under or pursuant to the Indenture, Bonds owned by or for the account of the Borrower or any person owned, controlled by, under common control with or controlling the Borrower shall be disregarded and deemed to be not outstanding; the term “*control*” (including the terms “*controlling*”, “*controlled by*” and “*under common control with*”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Beneficial ownership of 5% or more of a class of securities having general voting power to elect a majority of the board of directors of a corporation shall be conclusive evidence of control of such corporation.

“*Paying Agent*” means the Trustee acting as such, and any other paying agent appointed pursuant to the Indenture.

“*Permanent Phase*” has the meaning given to that term in the Construction Phase Financing Agreement.

“*Person*” means an individual, a corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“*Pledge Agreement*” means (i) prior to the Conversion Date, the Construction Phase Credit Pledge Agreement, (ii) from and after the Conversion Date, the Freddie Mac Pledge

Agreement, and (iii) any similar agreement executed in connection with an Alternate Credit Facility, as originally executed or as amended or modified from time to time.

“Pre-Conversion Loan Equalization Payment” has the meaning given to that term in the Freddie Mac Reimbursement Agreement.

“Principal Component” shall have the meaning set forth in the Credit Enhancement Agreement.

“Principal Office of the Credit Facility Provider” means (i) so long as the Construction Credit Facility Provider is the Credit Facility Provider, JPMorgan Chase Bank, N.A., Chase Community Development Banking, 17875 Von Karman, Floor 02, Irvine, CA 92614, Attention: Don Munoz, Sr. Service Specialist, with copies to (a) JPMorgan Chase Bank, N.A., 300 South Riverside Plaza, Mail Code IL1-0236, Chicago, IL 60606-0236, Attention: Standby Service Unit, and (b) JPMorgan Chase Bank, N.A., Legal Department, 245 Park Avenue, Mail Code NY1-Q657, New York, NY 10167, Attention: Michael Zients, Vice President and Assistant General Counsel, (ii) from and after the Conversion Date and so long as Freddie Mac is the Credit Facility Provider, the office of Freddie Mac located at 8100 Jones Branch Drive, McLean, Virginia 22102 or such other office or offices as Freddie Mac may designate from time to time, or (iii) the office of any successor Credit Facility Provider where it principally conducts its business of serving as credit facility provider under indentures pursuant to which municipal or governmental obligations are issued, or such other office or offices as the Credit Facility Provider may designate from time to time.

“Principal Office of the Remarketing Agent” means the office of the Remarketing Agent located at 3 World Financial Center, 200 Vesey Street, New York, New York 10281, Attention: Short Term Desk, or such other office or offices as the Remarketing Agent may designate in writing from time to time, or the office of any successor Remarketing Agent where it principally conducts its business of serving as remarketing agent under indentures pursuant to which municipal or governmental obligations are issued.

“Principal Office of the Tender Agent” means the office of the Tender Agent specified in the Indenture, or such other office or offices as the Tender Agent may designate in writing from time to time, or the office of any successor Tender Agent where it principally conducts its business of serving as tender agent under indentures pursuant to which municipal or governmental obligations are issued.

“Principal Office of the Trustee” means the office of the Trustee specified in the Indenture, or such other office or offices as the Trustee may designate in writing from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

“Principal Reserve Fund” means the Principal Reserve Fund established by the Trustee pursuant to the Indenture.

“*Principal Reserve Schedule*” means the Principal Reserve Schedule attached to the Freddie Mac Reimbursement Agreement, as the same may be amended from time to time.

“*Principal Reserve Schedule Payments*” means the payments to be made by the Borrower in accordance with the Principal Reserve Schedule on the first day of each month following Conversion.

“*Project*” means the Borrower’s leasehold interest in land, and 84 residential rental apartment units and related fixtures, equipment, furnishings and site improvements to be known as Brookwood Terrace Family Apartments located at 1338-1350 East San Antonio Street, San José, California, including the fee interest of the City of San José Financing Authority in real estate described in the Bond Mortgage.

“*Purchased Bond*” means any Bond during the period from and including the date of its purchase by the Trustee on behalf of the Borrower with amounts provided by the Credit Facility Provider under the Credit Facility, to, but excluding, the date on which such Bond is remarketed to any Person other than the Credit Facility Provider, the Borrower, any general partner, member or guarantor of the Borrower or the Issuer. All Purchased Bonds are to be held in certificated form under and pursuant to the Pledge Agreement.

“*Purchase Price,*” with respect to any Bond required to be purchased pursuant to the Indenture (except as described below), means the principal amount of such Bond plus interest accrued thereon to the Settlement Date and with respect to any Bond to be purchased in lieu of redemption pursuant to the Indenture means the principal amount of such Bond plus any redemption premium due thereon plus interest accrued thereon to the Settlement Date.

“*Qualified Investments*” means any of the following, but only to the extent the same (i) are acquired at Fair Market Value, (ii) are legal for the investment of the Issuer’s money at the time such investment is made or contracted for, and (iii) are explicitly permitted under the Issuer’s Investment Policy as in effect at the time of the investment (the current version of which was approved by the City Council of the Issuer on June 9, 2009 and which may be amended from time to time): (a) direct and general obligations of the United States of America; (b) obligations of any agency or instrumentality of the United States the payment of the principal of and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America; (c) senior debt obligations of Freddie Mac; (d) senior debt obligations of Fannie Mae; (e) demand deposits or time deposits with, or certificates of deposit issued by, the Trustee or its affiliates or any bank organized under the laws of the United States or any state or the District of Columbia which has combined capital, surplus and undivided profits of not less than \$50,000,000; *provided* that the Trustee or such other institution has been rated at least “A-1+” by S&P which deposits or certificates are fully insured by the Federal Deposit Insurance Corporation; (f) investment agreements with Freddie Mac or a bank or any insurance company or other financial institution which has a rating assigned by S&P to its outstanding long term unsecured debt which is the highest rating (as defined below) for long term unsecured debt obligations assigned by S&P, and which are approved by the Credit Facility Provider; or

(g) shares or units in any money market mutual fund (including mutual funds of the Trustee or its affiliates) registered under the Investment Company Act of 1940, as amended, whose investment portfolio consists solely of direct obligations of the United States government, and which fund has been rated “Aaa” by S&P or (h) any other investments approved in writing by the Credit Facility Provider. For purposes of this definition, the “highest rating” shall mean a rating of at least “A-1+” for obligations with less than one year maturity; at least “P-1” for obligations with a maturity of one year or greater but less than three years; and at least “AAA” for obligations with a maturity of three years or greater. Qualified Investments must be limited to instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change and interest, if tied to an index, shall be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with such index.

“*Rating Agency*” means each national rating agency then maintaining a rating on the Bonds or any successor or assign thereof.

“*Rebate Analyst*” means a certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution (which may include the Trustee) experienced in making the arbitrage and rebate calculations required pursuant to Section 148 of the Code, selected and retained by the Borrower at the expense of the Borrower (but which is not the Borrower), with the prior written consent of the Issuer, to make the computations required under the Indenture and the Financing Agreement. The initial Rebate Analyst is _____.

“*Rebate Fund*” means the Rebate Fund established by the Trustee pursuant to the Indenture.

“*Record Date*” means during any Variable Period, the Business Day immediately preceding an Interest Payment Date and during any Reset Period or the Fixed Rate Period, the 15th day of the month preceding any Interest Payment Date.

“*Redemption Fund*” means the Redemption Fund established by the Trustee pursuant to the Indenture.

“*Regulatory Agreement*” means the Regulatory Agreement and Declaration of Restrictive Covenants dated as of the delivery date, by and among the Issuer, the Trustee and the Borrower, as the same may be amended or supplemented in accordance with its terms.

“*Reimbursement Agreement*” means (i) prior to the Conversion Date, the Construction Phase Credit Reimbursement Agreement, (ii) from and after the Conversion Date, the Freddie Mac Reimbursement Agreement, as such agreements may be amended or supplemented from time to time, and (iii) upon the effectiveness of any Alternate Credit Facility, any similar agreement between the Borrower and the Alternate Credit Facility Provider pursuant to which the Borrower agrees to reimburse the Alternate Credit Facility Provider for payments made under the Alternate Credit Facility, as such agreement may be amended or supplemented.

“Reimbursement Mortgage” means, (i) prior to the Conversion Date, the Construction Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing (Credit Bank), and the Construction Fee Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing (Credit Bank), each dated as of November 1, 2009, from the Borrower and the City of San José Financing Authority, respectively, to the Construction Phase Credit Facility Provider and to be assigned to Freddie Mac and simultaneously amended and restated on the Conversion Date in the form attached to the Construction Phase Financing Agreement, as the same may be further amended, restated or supplemented from time to time; and (ii) from and after the Conversion Date, collectively, the Amended and Restated Second Multifamily Fee Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), and the Amended and Restated Second Multifamily Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), together with, in each case, all riders and addenda thereto, from the City of San José Financing Authority and the Borrower, respectively, for the benefit of Freddie Mac, each securing the Borrower’s obligations under the Freddie Mac Reimbursement Agreement, as each such Bond Mortgage may from time to time be amended, modified or supplemented.

“Remarketing Agent” means the remarketing agent appointed pursuant to the Indenture.

“Remarketing Agreement” means the Remarketing Agreement dated as of November 1, 2009 between the Remarketing Agent and the Borrower, or any similar agreement between the Remarketing Agent and the Borrower, in each case as originally executed or as it may be amended or supplemented from time to time in accordance with its terms.

“Remarketing Date” means each date on which the Remarketing Agent is required to notify the Trustee, the Tender Agent, the Borrower and the Credit Facility Provider of the Bonds for which it has found purchasers, as set forth in the Indenture.

“Required Bond Mortgage Payment” and *“Guaranteed Payment”* has the meaning set forth in the Credit Enhancement Agreement.

“Requisition” means, with respect to the Bond Mortgage Loan Fund, the requisitions in the forms attached to the Indenture required to be submitted in connection with certain disbursements from the Bond Mortgage Loan Fund, and with respect to the Cost of Issuance Fund, the requisition in the form attached to the Indenture required to be submitted in connection with disbursements from the Cost of Issuance Fund.

“Reset Adjustment Date” means any date on which the interest rate on the Bonds is adjusted to a Reset Rate or to a different Reset Rate. During a Variable Period, a Reset Adjustment Date may occur only on an Interest Payment Date or if such Interest Payment Date is not a Business Day, the next succeeding Business Day.

“Reset Period” means each period during which the Bonds bear interest at a Reset Rate.

“*Reset Rate*” means the rate of interest borne by the Bonds as determined in accordance with the Indenture.

“*Responsible Officer*” means any officer of the Trustee employed within or otherwise having regular responsibility in connection with the corporate trust department of the Trustee and who is located at the Principal Office of the Trustee.

“*Revenue Fund*” means the Revenue Fund established by the Trustee pursuant to Indenture.

“*Revenues*” means (i) all payments made with respect to the Bond Mortgage Loan pursuant to the Financing Agreement, the Bond Mortgage Note or the Bond Mortgage (except Principal Reserve Schedule Payments), including all casualty or other insurance benefits and condemnation awards paid in connection therewith (subject in all events to the interests of the Credit Facility Provider therein under the terms of the Credit Facility and the Freddie Mac Reimbursement Agreement), (ii) payments made by the Credit Facility Provider pursuant to the Credit Facility and (iii) all moneys and securities held by the Trustee in the funds and accounts established pursuant to the Indenture (excluding moneys or securities in the Cost of Issuance Fund, the Principal Reserve Fund, the Equity Account of the Bond Mortgage Loan Fund, the Rebate Fund and the Bond Purchase Fund), together with all investment earnings thereon.

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

“*Servicer*” means, following the Conversion Date, the eligible servicing institution designated by Freddie Mac from time to time (which may be Freddie Mac if Freddie Mac elects to service the Bond Mortgage Loan), or its successor, as servicer of the Bond Mortgage Loan. Initially, the Servicer shall be Citibank, N.A.

“*Servicing Fee*” means the monthly fee due the Servicer in an amount set forth in the Indenture from and after the Conversion Date computed on the basis of a 360 day year of twelve 30 day months payable on the dates and remitted by the Borrower as provided in the Reimbursement Agreement.

“*Settlement Date*” means any date on which any Bond is purchased or deemed purchased pursuant to the Indenture.

“*State*” means the State of California.

“*Substitution Date*” means any Business Day established for the mandatory tender and purchase of the Bonds in connection with the delivery to the Trustee of an Alternate Credit Facility pursuant to the Indenture. The Conversion Date is not a Substitution Date.

“*Tax Certificate*” means the Certificate as to Arbitrage dated the Delivery Date, executed and delivered by the Issuer and the Borrower.

“*Tender Agent*” means the Tender Agent appointed in accordance with the Indenture.

“*Tender Notice*” means a notice of demand for purchase of Bonds given by any Bondholder pursuant to the Indenture.

“*Trustee*” means Wells Fargo Bank, National Association, and its successors in trust under the Indenture.

“*Trust Estate*” has the meaning set forth in the Granting Clauses.

“*Unassigned Rights*” means (a) all of the Issuer’s right, title and interest in and to all reimbursement rights of the Issuer, (b) all rights of the Issuer to receive the Issuer Fee and payment of any amounts due to the Issuer under the Financing Agreement, (c) the right to receive notices and to make any determination and to grant any approval or consent to anything in this Indenture or any Bond Mortgage Loan Document requiring the determination, consent or approval of the Issuer, (d) all rights of the Issuer to enforce the representations, warranties, covenants and agreements of the Borrower set forth in the Tax Certificate and in the Regulatory Agreement and to enforce the Borrower’s compliance with applicable federal tax law and State law (including the Act), subject to the Intercreditor Agreement, (e) any and all rights, remedies and limitations of liability of the Issuer set forth in this Indenture or any Bond Mortgage Loan Document regarding (1) the negotiability, registration and transfer of the Bonds, (2) the loss or destruction of the Bonds, (3) the limited liability of the Issuer as provided in the Act and in this Indenture or any Bond Mortgage Loan Document, (4) the maintenance of insurance by the Borrower, (5) no liability or the limited liability of the Issuer to any and/or all parties, (6) no warranties of suitability or merchantability by the Issuer, (7) the Issuer’s rights to indemnification from the Borrower as provided in the Financing Agreement and the Regulatory Agreement, subject to the Intercreditor Agreement, (8) the Issuer’s rights to enforce restrictions on transfer of ownership, subject to the Intercreditor Agreement, (9) the Issuer’s right to inspect books, records and premises, and (10) to amend this Indenture and the Bond Mortgage Loan Documents in accordance with the provisions hereof and thereof, as applicable, and (f) all rights of the Issuer in connection with any amendment to or modification of this Indenture or any Bond Mortgage Loan Document.

“*Variable Interest Accrual Period*” means, during any Variable Period, a period beginning on the date following any Variable Interest Computation Date and ending on the next succeeding Variable Interest Computation Date and the first Variable Interest Accrual Period for any Variable Period shall begin on the first day of such Variable Period and end on the next succeeding Variable Interest Computation Date.

“Variable Interest Computation Date” means with respect to any Variable Interest Accrual Period, each Wednesday during such period, or if any such Wednesday is not a Business Day, the next succeeding Business Day.

“Variable Period” means each period during which the Bonds bear interest at a Variable Rate.

“Variable Rate” means the variable rate of interest borne by the Bonds as determined in accordance with the Indenture.

“Variable Rate Adjustment Date” means any date upon which the Bonds begin to bear interest at a Variable Rate for the succeeding Variable Period.

“Wrongful Dishonor” means the failure of Freddie Mac to honor a draw made in accordance with the terms of the Credit Facility (which draw strictly complies with, and conforms to, the terms and conditions of the Credit Facility).

APPENDIX B

FORM OF CREDIT ENHANCEMENT AGREEMENT

APPENDIX C

FORM OF BOND COUNSEL OPINION

November __, 2009

City of San José, California
200 East Santa Clara Street
San Jose, California 95113-1905

OPINION: \$13,600,000 City of San José, California Variable Rate Demand Multifamily Housing Revenue Bonds (Brookwood Terrace Family Apartments), Series 2009B

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of San José, California (the “Issuer”) of its \$13,600,000 City of San José, California Variable Rate Demand Multifamily Housing Revenue Bonds (Brookwood Terrace Family Apartments), Series 2009B (the “Bonds”) pursuant to Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the “Act”), and a Trust Indenture, dated as of November 1, 2009 (the “Indenture”), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”), approved by the Issuer by a resolution adopted on November 10, 2009. The proceeds of the Bonds will be used to make a loan to Brookwood Terrace Family Apartments, L.P., a California limited partnership (the “Borrower”), pursuant to the terms of a Financing Agreement, dated as of November 1, 2009 (the “Financing Agreement”), among the Issuer, the Trustee and the Borrower.

In connection with this opinion, we have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture and in the certified proceedings and other certifications of public officials and of the Borrower, furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The Issuer is a municipal corporation and charter city, duly organized and existing under the laws of the State of California, with the power to enter into the Indenture and the Financing Agreement, perform the agreements on its part contained in the Indenture and the Financing Agreement, and issue the Bonds.

2. The Indenture and the Financing Agreement have been duly approved by the Issuer and constitute valid and binding obligations of the Issuer enforceable upon the Issuer in accordance with their respective terms.

3. The Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the sources provided therefor in the Indenture.

5. Prior to any Reset Adjustment Date or Fixed Rate Adjustment Date (as such terms are defined in the Indenture), and subject to compliance by the Issuer and the Borrower with certain covenants, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the facilities financed by the Bonds or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")), (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, and (iii) is not taken into account in computing adjusted current earnings, which is an adjustment in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Financing Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Issuer, the Borrower and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no

obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

C-3

20091110_02a3_con6
Council Agenda: 11-10-09
Item No.: 2.a.3_con6

DRAFT--Contact the Office of the City Clerk at (408)535-1260 or CityClerk@sanjoseca.gov for final document.

APPENDIX D

FORM OF LETTER OF CREDIT

D-1

20091110_02a3_con6
Council Agenda: 11-10-09
Item No.: 2.a.3_con6

DRAFT--Contact the Office of the City Clerk at (408)535-1260 or CityClerk@sanjoseca.gov for final document.