

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER __, 2011

New Issue – Book-Entry Only

Expected Rating: S&P: “AA+” (See “RATING” herein)

In the opinion of Jones Hall, a Professional Law Corporation, San Francisco, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, except during any period while a Bond is held by a “substantial user” of the facilities financed by the Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986. It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from personal income taxation imposed by the State of California. See “TAX MATTERS” herein.

This Preliminary Official Statement and certain of the information contained herein is in a form deemed final for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for the omission of certain information permitted to be omitted under Rule 15c2-12(b)(1)). The information herein is subject to revision, completion or amendment in a final Official Statement. The Bonds may not be sold, nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

§[2011A-1 PAR]*
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-1

§[2011A-2 PAR]*
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-2

Dated: Delivery Date

Due: As shown on inside cover

The City of San José (the “Issuer”) has agreed to issue the above-captioned Series 2011A-1 Bonds (the “Series A-1 Bonds”) and the above-captioned Series 2011A-2 Bonds (the “Series A-2 Bonds” and, together with the Series A-1 Bonds, the “Bonds”) pursuant to a Trust Indenture, dated as of September 1, 2011 (the “Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Bonds shall bear interest at the fixed rates, set forth on the inside front cover page hereof and as described herein. Interest on the Bonds will be payable semi-annually on April 1 and October 1 of each year (each an “Interest Payment Date”), commencing April 1, 2012. The Bonds will be fully registered bonds without coupons, in the minimum denomination of \$5,000 principal amount or any integral multiple thereof within a maturity. 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.

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 Taylor Oaks Apartments Investors, L.P., a limited partnership duly organized and existing under the laws of the State of California (the “Borrower”), pursuant to which the Issuer will make a mortgage loan (the “Bond Mortgage Loan”) to the Borrower for the purpose of financing the acquisition and rehabilitation of a multifamily rental housing development located at 2726-2738 Kollmar Drive in San José, California known as Taylor Oaks Apartments as further described herein (the “Project”) and paying certain costs of the issuance of the Bonds.

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 due on the Bonds and the payment of the Purchase Price (in the event of a purchase in lieu of redemption) of the Bonds through the issuance of a direct-pay Credit Enhancement Agreement dated as of the date of the Indenture (the “Credit Enhancement Agreement”), between the Trustee and Freddie Mac.

FREDDIE MAC

The Credit Enhancement Agreement will terminate on [October 6, 2028] (or earlier as provided therein). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein and Appendix B, “FORM OF CREDIT ENHANCEMENT AGREEMENT” hereto.

The Bonds will be subject to redemption prior to the stated maturity date at the prices, on the terms and upon the occurrence of the events described herein. The maturity of the Bonds may be accelerated upon the occurrence of certain events as further described herein. See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default” and “– Acceleration; Other Remedies Upon Event of Default” herein. Persons who purchase Bonds at a price in excess of their principal amount risk the loss of any premium paid in the event the Bonds are redeemed prior to maturity. See “THE BONDS” and “CERTAIN BONDHOLDERS’ RISKS” herein.

THE BONDS AND INTEREST THEREON 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 ISSUER, THE STATE OF CALIFORNIA, OR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER OR ANY OTHER SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. THE FAITH AND CREDIT OF NEITHER THE ISSUER, NOR THE STATE, NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE 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 offered when, as and if issued and received by Citigroup Global Markets Inc. (the “Underwriter”), subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Issuer by its counsel the City Attorney of the City of San José; for Freddie Mac by its Legal Division and by its counsel Kantor Taylor Nelson Boyd & Evatt PC, Seattle, Washington; for the Borrower by its counsel Cox, Castle & Nicholson, LLP, San Francisco, California; and for the Underwriter by its counsel Eichner & Norris PLLC, Washington, D.C. It is expected that the Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about September __, 2011.

Citigroup

Dated: September __, 2011

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES*

Series 2011A-1 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Price	CUSIP
	\$	___%	100%	_____

Series 2011A-1 Term Bond

Maturity Date	Principal Amount	Interest Rate	Price	CUSIP
[October 1, 2028]	\$	___%	100%	_____

Series 2011A-2 Term Bond

Maturity Date	Principal Amount	Interest Rate	Price	CUSIP
	[\$2011A-2 PAR]	___%	100%	_____

* Preliminary; subject to change.

No broker, dealer, salesman or other person has been authorized by the Issuer, the Borrower, or 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 (to the limited extent noted below), the Borrower, 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, Freddie Mac (except with respect to the description under the heading “FREDDIE MAC”) and is not to be construed as a representation of, the Issuer (except with respect to the description under the headings “THE ISSUER” and “ABSENCE OF 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 headings “THE ISSUER” and “ABSENCE OF LITIGATION—The Issuer” and takes no responsibility for any other information contained in this Official Statement.

The information set forth herein relating to the Issuer under the headings “THE ISSUER” and “ABSENCE OF LITIGATION – The Issuer” has been obtained from the Issuer, and all other information herein has been obtained by the Underwriter from the Borrower, the Underwriter and other sources deemed by the Underwriter to be reliable, but is not to be construed as a representation by, the Issuer or Underwriter. The Issuer has not reviewed or approved any information in this Official Statement except information relating to the Issuer under the headings “THE ISSUER” and “ABSENCE OF LITIGATION.” The information herein is 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 affairs of the Issuer or the Borrower since the date hereof.

Freddie Mac has not provided or approved any information in this Official Statement, except with respect to the description under the heading “FREDDIE MAC,” and takes no responsibility for any other information contained in this Official Statement. Freddie Mac makes no representation as to the other 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. 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.

Copies of documents referred to herein and information concerning the Bonds are available from the City of San José – Finance, Debt Management, 200 East Santa Clara Street, San José, California 95113, Phone: (408) 535-7010. The Issuer may impose a charge for copying, mailing and handling.

When used in this Official Statement and in any continuing disclosure made by the Issuer, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or any party described in this Official Statement, since the date of this Official Statement.

All summaries of documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this Official Statement to a document is qualified in its entirety by reference to such document, which is on file with the Issuer.

The Underwriter may offer and sell the Bonds to certain dealers, dealer banks, and other institutional investors acting as agents at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and such public offering prices may be changed from time to time.

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

Page

INTRODUCTION 1

THE ISSUER 6

THE BONDS 6

BOOK-ENTRY ONLY SYSTEM..... 14

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS 17

SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT..... 19

FREDDIE MAC..... 22

THE PROJECT AND THE PRIVATE PARTICIPANTS..... 24

PLAN OF FINANCING 27

THE SERVICER 27

THE TRUSTEE 28

CERTAIN BONDHOLDERS’ RISKS 28

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE 32

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT..... 60

SUMMARY OF CERTAIN PROVISIONS OF THE INTERCREDITOR AGREEMENT 66

SUMMARY OF CERTAIN PROVISIONS OF THE TAX REGULATORY AGREEMENT 67

CONTINUING DISCLOSURE..... 82

TAX MATTERS..... 83

UNDERWRITING 85

MULTIPLE ROLES OF PARTIES..... 85

RATING 85

RECENT ECONOMIC DEVELOPMENTS 86

CERTAIN LEGAL MATTERS..... 86

ABSENCE OF LITIGATION 86

ENFORCEABILITY OF REMEDIES 87

MISCELLANEOUS 87

APPENDIX A—DEFINITIONS OF CERTAIN TERMS

APPENDIX B—FORM OF CREDIT ENHANCEMENT AGREEMENT

APPENDIX C—FORM OF BOND COUNSEL OPINION

APPENDIX D—FORM OF CONTINUING DISCLOSURE AGREEMENT

OFFICIAL STATEMENT

§[2011A-1 PAR]*
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-1

§[2011A-2 PAR]*
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-2

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. 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 Tax Regulatory Agreement, the Reimbursement Agreement, the Bond Mortgage Note and the Credit Enhancement Agreement (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 (the “Issuer”) of the above-captioned Series 2011A-1 Bonds (the “Series A-1 Bonds”) and the above-captioned Series 2011A-2 Bonds (the “Series A-2 Bonds” and, together with the Series A-1 Bonds, the “Bonds”). The Bonds are being issued pursuant to Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the “Act”), a resolution (the, “Bond Resolution”) adopted by the City Council of the Issuer on August __, 2011, and a Trust Indenture, dated as of September 1, 2011 (the “Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Simultaneously with the issuance of the Bonds, 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, Taylor Oaks Apartments Investors, L.P., a limited partnership duly organized and existing under the laws of the State of California (the “Borrower”) and the Trustee, pursuant to which the Issuer will make a mortgage loan (the “Bond Mortgage Loan”) to the Borrower for the purpose of financing the acquisition and rehabilitation of a multifamily rental housing development located at 2726-2738 Kollmar Drive in San José, California known as Taylor Oaks Apartments (the “Project”) and paying certain costs of issuance of the Bonds. 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.

The Borrower’s repayment obligations in respect of the Bond Mortgage Loan will be evidenced by a non-recourse Bond Mortgage Note (together with all riders and addenda thereto, the “Bond Mortgage Note”) dated the date of initial issuance of the Bonds (the “Delivery Date”),

* Preliminary; subject to change.

delivered to the Issuer, which Bond Mortgage Note will be endorsed by the Issuer to the Trustee. To secure the Borrower's obligations under the Bond Mortgage Note, the Borrower will execute and deliver to the Issuer a First Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (the "Bond Mortgage") with respect to the Project. The principal amount and payment provisions of the Bond Mortgage Note will be structured so that (a) the aggregate principal amount of the Bond Mortgage Note will never be less than the aggregate principal amount of Outstanding Bonds; (b) the interest payable on the Bond Mortgage Note will never be less than the interest payable on the Outstanding Bonds; and (c) the required payments under the Bond Mortgage Note will be timely and sufficient in amount to make the payments due to the Bondholders on the Outstanding Bonds.

The Borrower will cause to be delivered to the Trustee on the Delivery Date a direct-pay Credit Enhancement Agreement, dated as of the date of the Indenture (the "Credit Enhancement Agreement" or "Credit Facility"), between the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Credit Facility Provider") and the Trustee. Under the Credit Enhancement Agreement, subject to certain requirements set forth therein, on each Interest Payment Date, any date Bonds are called for optional or mandatory redemption, and on the maturity date of the Bond Mortgage Note, Freddie Mac will be required to pay (provided that the Trustee makes a conforming draw on the Credit Enhancement Agreement) the sum of the Interest Component and, if applicable, the Principal Component of a Guaranteed Payment and the payment of the Purchase Price (in the event of a purchase in lieu of redemption) of the Bonds. See Appendix B, "FORM OF CREDIT ENHANCEMENT AGREEMENT."

The Borrower's reimbursement obligations to Freddie Mac for draws made under the Credit Enhancement Agreement will be evidenced by a Reimbursement and Security Agreement, dated as of the date of the Indenture (the "Reimbursement Agreement"), between the Borrower and Freddie Mac. To secure the Borrower's reimbursement obligations under the Reimbursement Agreement, the Borrower will execute and deliver to Freddie Mac on the Delivery Date a Second Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of the date of the Indenture (the "Reimbursement Mortgage"), with respect to the Project. The Reimbursement Mortgage does not secure repayment of the Bonds and Bondholders will have no rights with respect to and are not third party beneficiaries of the Reimbursement Mortgage. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The Issuer will assign the Bond Mortgage Note and the Bond Mortgage to the Trustee and Freddie Mac pursuant to the Indenture, as the respective interests of the Trustee and Freddie Mac may appear, under and subject to the terms and conditions of the Intercreditor Agreement dated as of September 1, 2011 (the "Intercreditor Agreement"), among the Issuer, the Trustee and Freddie Mac.

Citibank, N.A. (the "Construction Lender" has agreed, pursuant to the terms and subject to the conditions of the Construction Loan Agreement and the Construction Phase Credit Reimbursement Agreement (as each is defined below), to facilitate the financing of the Project, by (a) making a conventional construction loan to Borrower (the "Construction Loan") pursuant to the terms and subject to the conditions of a Construction Loan Agreement dated as of the date of the Indenture (the "Construction Loan Agreement") with the Borrower, (b) entering into a

Letter of Credit and Reimbursement Agreement, dated as of the date of the Indenture (the “Construction Phase Credit Reimbursement Agreement” and, together with the Construction Loan Agreement, the “Credit Agreement”) with the Borrower and (c) entering into a Construction Phase Financing Agreement dated as of the date of the Indenture (the “Construction Phase Financing Agreement”) with Freddie Mac and Citibank, N.A., as the Freddie Mac seller/servicer (the “Servicer”). The Construction Lender will advance proceeds of the Construction Loan, in accordance with the terms of the Construction Loan Agreement and the Construction Phase Financing Agreement, to the Borrower (i) to pay Costs of the Project, (ii) to reimburse Freddie Mac for draws made upon the Credit Facility for the payment of accrued and unpaid interest on the Bond Mortgage Loan, and (iii) to pay any regular, ongoing fees due and payable to the Issuer, the Trustee and Freddie Mac and, prior to the Trustee’s receipt of a Direction to Release, to the Trustee, for the benefit of Freddie Mac, for deposit into the Freddie Mac Collateral Fund, as and to the extent necessary, to assure that, at all times during the Construction Phase, the sum of (a) amounts deposited and held in the Project Account of the Bond Mortgage Loan Fund plus (b) amounts deposited and held in the Freddie Mac Collateral Fund (disregarding any investment earnings thereon), is equal to an amount not less than the Construction Phase Collateral Requirement (as defined herein). Subject to the terms and conditions of the Construction Phase Credit Reimbursement Agreement and the Construction Phase Financing Agreement, the Construction Lender, in the future, but no later than [_____], will issue to Freddie Mac of a clean, unconditional, irrevocable and transferrable standby letter of credit (the “Construction Phase Credit Facility”) in an amount equal to the Construction Phase Collateral Requirement and, upon receipt of the Construction Phase Credit Facility and the accompanying opinion letter, Freddie Mac shall issue a Direction to Release. To secure the Borrower’s reimbursement obligations under the Reimbursement Agreement, the Borrower will execute and deliver to the Construction Lender a Third Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of the date of the Indenture (the “Construction Mortgage”). Bondholders will have no rights with respect to and are not third party beneficiaries of the Construction Mortgage.

It is a condition to the delivery of the Credit Enhancement Agreement by Freddie Mac to the Trustee and the making of the Construction Loan to the Borrower and subsequently issuing the Construction Phase Credit Facility to Freddie Mac that the Issuer, the Trustee, Freddie Mac and the Construction Lender enter into an Intercreditor Agreement, dated as of the date of the Indenture (the “Intercreditor Agreement”), pursuant to which the rights of the Issuer, the Trustee, Freddie Mac and the Construction Lender to enforce remedies under the Bond Mortgage, Reimbursement Mortgage and Construction Mortgage, respectively, are set forth among the parties. None of the Issuer, Trustee or the Bondholders will have the right to exercise certain remedies (without the prior consent or direction of Freddie Mac) under the Bond Mortgage during any period the Credit Enhancement Agreement remains in effect and Freddie Mac continues to honor its obligations thereunder. See “SUMMARY OF CERTAIN PROVISIONS OF THE INTERCREDITOR AGREEMENT” in this Official Statement.

Freddie Mac’s participation as a credit enhancer will not extend beyond the Construction Phase (as defined in the Construction Phase Financing Agreement) unless the Conditions to Conversion which are set forth in the Construction Phase Financing Agreement are satisfied on or prior to 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 not satisfied,

are waived by Freddie Mac, in its sole discretion) the Bond Mortgage Loan will convert from the Construction Phase to the Permanent Phase (as defined in the Construction Phase Financing Agreement) (such an event referred to as the “Conversion”). Upon Conversion, the Credit Enhancement Agreement will continue to provide for draws in an amount equal to the Guaranteed Payments with respect to the Bond Mortgage Loan. 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), Conversion will not occur, and the Bonds will be subject to mandatory redemption in whole (or purchase in lieu thereof) if so directed by Freddie Mac. No such redemption (or purchase in lieu thereof) resulting from such event will be made at a premium. In the event of such a mandatory redemption in whole, the redemption price is to be paid with funds provided under the Credit Enhancement Agreement. Alternatively, in lieu of such redemption, the Bonds may be purchased by the Trustee for the account of the Construction Lender from amounts advanced under the Credit Enhancement Agreement (upon satisfaction of the conditions set forth in the Construction Phase Financing Agreement). See “THE BONDS—Mandatory Redemption” in this Official Statement.

The Conditions to Conversion include, for example (but are not limited to), completion of the construction of the Project substantially in compliance with the approved scope of work and the achievement of certain specified levels of occupancy from the leasing of units in the Project. No assurance can be given that all of the Conditions to Conversion will be satisfied on or prior to the Forward Commitment Maturity Date. In addition, even if Conversion occurs, no assurance can be given that the principal amount of the Bond Mortgage Loan after Conversion, as finally determined in accordance with the Construction Phase Financing Agreement, will not be less than the original principal amount of the Bond Mortgage Loan. If the principal amount of the Bond Mortgage Loan, as finally determined in accordance with the Construction Phase Financing Agreement, is 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 “Loan Equalization Payment”). Upon such prepayment, a corresponding portion of the principal amount of the 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. 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 lieu of redemption in whole, as described above. See also “THE BONDS—Mandatory Redemption” in this Official Statement.

During the Construction Phase, the Construction Lender will serve as administrator of the Bond Mortgage Loan in accordance with the terms of the Indenture, the Credit Agreement and the Construction Phase Financing Agreement. If the Notice of Conversion is issued prior to the Forward Commitment Maturity Date, the Bond Mortgage Loan will convert from the Construction Phase to the Permanent Phase.

During the Permanent Phase, the Servicer will act as servicer for the Bond Mortgage Loan and payments on the Bond Mortgage Loan will be made by the Borrower to the Servicer. From amounts received from the Borrower, the Servicer is required to (i) remit to Freddie Mac the Credit Enhancement Fee, (ii) remit to the Trustee amounts for deposit to the Credit Facility Reimbursement Fund for reimbursement to Freddie Mac for draws made under the Credit

Enhancement Agreement and to the Administration Fund for certain fees payable to the Trustee, the Issuer, the Dissemination Agent and the Rebate Analyst, (iii) retain its Servicing Fee and (iv) make scheduled monthly deposits to fund certain reserves (which have been established solely for the benefit of Freddie Mac).

The Project is required to be rented at certain affordable rents and occupied by families whose incomes satisfy certain provisions of the Act, the Issuer's policies and applicable provisions of 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 "Tax Regulatory Agreement"), among the Borrower, the Issuer and the Trustee. Occupancy and rents are further restricted in connection with the award of low income housing tax credits to the Project. See "THE PROJECT AND THE PRIVATE PARTICIPANTS" and "SUMMARY OF CERTAIN PROVISIONS OF THE TAX REGULATORY AGREEMENT" herein.

THE BONDS AND INTEREST THEREON 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 ISSUER, THE STATE OF CALIFORNIA, OR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER OR ANY OTHER SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. THE FAITH AND CREDIT OF NEITHER THE ISSUER, NOR THE STATE, NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE 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.

Purchase of the Bonds is suitable only for sophisticated investors able to evaluate the credit of Freddie Mac. See "FREDDIE MAC" and "CERTAIN BONDHOLDERS' RISKS" herein.

Brief descriptions contained herein of the Issuer, the Bonds, the security for the Bonds, the Indenture, the Financing Agreement, the Tax Regulatory Agreement, the Reimbursement Agreement, the Intercreditor Agreement and the Credit Enhancement 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, MAC: E2818-176, Los Angeles, California 90017.

THE ISSUER

The following information has been provided by the Issuer. None of the Trustee, the Borrower, Freddie Mac, the Servicer, the Underwriter or the Remarketing Agent have made any independent investigation regarding the information presented under this heading, nor have such parties verified the accuracy or completeness thereof, and none of the Trustee, the Borrower, Freddie Mac, the Servicer, the Underwriter or the Remarketing Agent assumes any responsibility or liability therefor.

The City, with a population as of April 1, 2010 of approximately 945,942 (as reported by the United States Census Bureau), is the third largest city in California and the tenth largest city in the United States. The territory of the City encompasses approximately 178 square miles. Located at the southern end of the San Francisco Bay, San José is the county seat of the County of Santa Clara (the “County”).

The City is governed by the City Council, consisting of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered four-year terms. The Mayor and the council members are limited to two consecutive four-year terms. The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor and Independent Police Auditor. The officials heading these offices are appointed by the City Council and carry out the policies set forth by the City Council.

The city provides a full range of services contemplated by statute or charter including those functions delegated to cities under state law. These services include public safety, sanitation and health, environmental enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

THE BONDS AND INTEREST THEREON 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 ISSUER, THE STATE OF CALIFORNIA, OR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER OR ANY OTHER SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. THE FAITH AND CREDIT OF NEITHER THE ISSUER, NOR THE STATE, NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS.

THE BONDS

General

The Bonds are authorized to be issued under the Indenture as revenue bonds of the Issuer in accordance with the Bond Resolution. The Bonds shall initially be designated City of San José Multifamily Housing Revenue Bonds (Taylor Oaks Apartments) Series 2011A-1 (the “Series A-1 Bonds”) and City of San José Multifamily Housing Revenue Bonds (Taylor Oaks Apartments) Series 2011A-2 (the “Series A-2 Bonds” and, together with the Series A-1 Bonds, the “Bonds”). The Bonds shall be fully registered as to principal and interest, without coupons,

and shall be numbered by series, if any, in the manner and with any additional designation as the Trustee, as Bond Registrar, deems necessary for the purpose of identification. All of the Bonds are equally and ratably secured under the Indenture. Bonds issued on the Delivery Date shall be dated such date; Bonds issued after the Delivery Date shall be dated the date they are authenticated by the Trustee.

Interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds shall be payable on each Interest Payment Date, in each case from the Interest Payment Date next preceding the date of authentication thereof to which interest has been paid or duly provided for, unless the date of authentication is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication of the Bond, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Delivery Date, until payment of the principal of the Bond has been made or duly provided for. Notwithstanding the foregoing, if a Bond is authenticated after a Record Date and before the following Interest Payment Date, such Bond shall bear interest from such Interest Payment Date; provided, however, that if there shall be a default in the payment of interest due on such Interest Payment Date, then the Bonds shall bear interest from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for on the Bonds, from the Delivery Date.

The Bonds shall be issued in Authorized Denominations and shall bear interest payable on each Interest Payment Date at the rates per annum and shall mature, subject to redemption prior to maturity, on the dates set forth inside the front cover of this Official Statement.

The Person in whose name any Bond is registered on the Record Date with respect to an Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date (unless such Bond has been called for redemption on a redemption date which is prior to such Interest Payment Date) notwithstanding the cancellation of such Bond upon any registration of transfer or exchange thereof subsequent to such Record Date and 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 provided 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 (herein "Defaulted Interest") shall forthwith 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"). 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 Record Date and the proposed payment of such Defaulted Interest on the Special Interest Payment 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 proposed payment of such Defaulted Interest on 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 principal of, premium, if any and interest on the Bonds shall be paid by check mailed on the Interest 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 (5) Business Days prior to a 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 of America designated by such registered Owner.

Book-Entry Only System of Registration

Notwithstanding the foregoing provisions of the Indenture, each of the Bonds shall initially be issued in the form of one fully registered bond for the aggregate principal amount of the Bonds of each series and maturity, which Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Except as described under this heading below, all of the Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC; provided that if DTC shall request that the Bonds be registered in the name of a different nominee, the Trustee shall exchange all or any portion of the Bonds for an equal aggregate principal amount of Bonds registered in the name of such nominee or nominees of DTC. No Person other than DTC or its nominee or any "FAST" agent for DTC shall be entitled to receive from the Issuer or the Trustee either a Bond or any other evidence of ownership of the Bonds, or any right to receive any payment in respect thereof unless DTC or its nominee shall transfer record ownership of all or any portion of the Bonds on the Bond Register in connection with discontinuing the book entry system as provided in the last paragraph under this heading or otherwise.

So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all payments of the principal or redemption price of or interest on such Bonds shall be made to DTC or its nominee in same day funds on the dates provided for such payments under the Indenture. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the Issuer and the Trustee with respect to the principal or redemption price of or interest on the Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any series or maturity, the Trustee shall not require surrender by DTC or its nominee of the Bonds so redeemed, but DTC (or its nominee) may retain such Bonds and make an appropriate notation on the Bond certificate as to the amount of such partial redemption; provided that DTC shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such maturity which have been redeemed.

The Issuer and the Trustee may treat DTC or its nominee as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Holders and for all other purposes whatsoever; and neither the Issuer nor the Trustee shall be affected by any notice to the contrary. Neither the Issuer nor the Trustee shall have any responsibility or obligation to any participant in DTC, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other Person which

is not shown on the Bond Register as being a Bondholder, with respect to: (1) the accuracy of any records maintained by DTC or any such participant; (2) the payment by DTC or any such participant of any amount in respect of the principal or redemption price of or interest on the Bonds; (3) the delivery to any participant or to any other Person, other than the Holders as shown on the Bond Register, of any notice which is permitted or required to be given to Holders under the Indenture; (4) the selection by DTC or any such participant of any Person to receive payment in the event of a partial redemption of the Bonds; or (5) any consent given or other action taken by DTC as Holder.

So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the Holders under the Indenture shall be given to DTC as provided in DTC's procedures, as the same may be amended from time to time.

In connection with any notice or other communication to be provided to Holders pursuant to the Indenture by the Issuer or the Trustee with respect to any consent or other action to be taken by Holders, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give DTC notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

The book entry system for registration of the ownership of the Bonds may be discontinued at any time if either: (1) DTC determines to resign as securities depository for the Bonds; or (2) the Issuer determines (with the prior written consent of the Credit Facility Provider) to discontinue the system of book entry transfers through DTC (or through a successor securities depository) subject to the rules and regulations of DTC regarding the discontinuation of the system of book-entry transfers in effect at such time. In either of such events (unless, in the case described in clause (2) above, the Issuer appoints a successor securities depository), the Bonds shall be delivered in registered certificate form to such Persons, and in such series, maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer or the Trustee for the accuracy of such designation. Whenever DTC requests the Issuer and the Trustee to do so, the Issuer and the Trustee shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds. See "BOOK-ENTRY ONLY SYSTEM" below.

Optional Redemption*

The Series A-1 Bonds are not subject to optional redemption prior to [_____] 1, 20[___], and the Series A-2 Bonds are not subject to optional redemption prior to [_____] 1, 20[___]. On and after [_____] 1, 20[___], the Series A-1 Bonds, and on and after [_____] 1, 20[___], the Series A-2 Bonds, are subject to optional redemption from payments made under the Credit Facility or with other Eligible Funds deposited with the Trustee as follows:

(i) with the prior written consent of the Credit Facility Provider, in whole or in part, upon optional prepayments on the Bond Mortgage Loan in accordance with the prepayment restrictions set forth in the Bond Mortgage Note and the Financing Agreement on any Business Day, at the redemption prices set forth below expressed as percentages of their principal amount plus accrued interest, if any, to the redemption date.

* Preliminary; subject to change.

Redemption Date	Redemption Price
[_____] 1, 20[___] through [_____] 1, 20[___]	102%
[_____] 1, 20[___] through [_____] 1, 20[___]	101%
[_____] 1, 20[___] and thereafter	100%

(ii) Optional redemption of Bonds at a premium may only be made if the Trustee shall have received Eligible Funds (not consisting of funds drawn under the Credit Facility) on or prior to the redemption date in an amount sufficient to pay the applicable redemption premium.

(iii) The Trustee shall effect a redemption of Bonds as described above at the earliest practicable date for which notice may be given under the Indenture but in no event later than 35 days following its receipt of money representing an optional prepayment of the Bond Mortgage Loan.

Mandatory Redemption

The Bonds are subject to mandatory redemption on any Business Day, in whole or in part as indicated below, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium, at the earliest practicable date from payments made under the Credit Facility 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 (with the consent of the Construction Lender) to redeem such Bonds using money obtained as a result of a draw upon the Credit Facility; or

(ii) in whole or in part, upon receipt by the Trustee of amounts from the Credit Facility Provider pursuant to the Credit Facility as a result of the occurrence of an event of default under any Bond Mortgage Loan Document and receipt by the Trustee of a written direction by the Credit Facility Provider (with the consent of the Construction Lender) to redeem the Bonds pursuant to the Credit Facility; or

(iii) in part, at the written direction of the Credit Facility Provider, in the event the Borrower is required to make a Loan Equalization Payment in an amount equal to the Loan Differential pursuant to the Construction Phase Financing Agreement; or

(iv) in part, on the Interest Payment Date next following the completion of the construction of the Project, to the extent amounts remaining in the Project Account of the Bond Mortgage Loan Fund are transferred to the Redemption Fund pursuant to the Indenture; or

(v) in whole, upon receipt by the Trustee of a written direction by the Credit Facility Provider to redeem the Bonds pursuant to the Credit Facility as a result of the occurrence of a Borrower Default, a Construction Lender Default (provided that no substitute construction lender is substituted in the place and stead of the Construction Lender pursuant to the Construction

Phase Financing Agreement) or a Direction to Draw; or

(vi) in whole, at the written direction of the Credit Facility Provider, on or after the Forward Commitment Maturity Date, if the Notice of Conversion is not issued by the Servicer prior to the Forward Commitment Maturity Date; or

(vii) in part, upon receipt by the Trustee of (1) a written direction by the Credit Facility Provider to redeem Bonds pursuant to the Credit Facility in the event the Borrower makes a Required Principal Paydown (as defined in the Reimbursement Agreement) in accordance with the terms of the Reimbursement Agreement and (2) amounts from the Credit Facility Provider pursuant to the Credit Facility.

Mandatory Sinking Fund Redemption

The Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts set forth in the table(s) below; provided that if less than all the Bonds shall have been redeemed pursuant to “Optional Redemption” or “Mandatory Redemption” above, the amount of Term Bonds to be redeemed in each year from sinking fund installments as described herein shall be decreased by an amount, in proportion, as nearly as practicable, to the decrease in the payments on the Bond Mortgage Loan in such year as determined by the Trustee (in consultation with the Servicer):

Sinking Fund Schedule for Bonds Maturing on [_____, 1 202_]*

Redemption Date	Principal Amount	Redemption Date	Principal Amount
	\$	†	**

† Stated maturity.

Selection of Bonds for Redemption

The Trustee shall select Bonds subject to mandatory sinking fund redemption as described above under the caption “Mandatory Sinking Fund Redemption” above by lot within the appropriate series and maturity. If less than all the Bonds then Outstanding shall be called for redemption other than as a result of mandatory sinking fund 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, as verified by the Servicer, and the Bonds shall be selected by lot within each series and maturity, the cost of such selection being at the Borrower’s expense.

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

* Preliminary; subject to change.

** Consists of a mandatory sinking fund redemption of \$[_____] and a payment of principal at maturity of \$[_____].

Unless otherwise directed by the Borrower in writing, the Trustee shall first select Series A-2 Bonds for redemption until no Series A-2 Bonds remain outstanding and, subsequently, shall select Series A-1 Bonds for redemption.

Notice of Redemption

Notice of the intended redemption of each Bond shall 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 shall be given not less than ten (10) days (not less than thirty (30) days in the case of optional or mandatory sinking fund redemptions) nor more than sixty (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 and the Construction Lender).

Notices of redemption shall state the redemption date and the redemption price, the place or places where amounts due upon such redemption will be payable, and, if less than all of the then Outstanding Bonds are called for redemption, shall state (i) the numbers of the Bonds to be redeemed by giving the individual certificate number of each Bond to be redeemed or shall 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 only if bonds cease to be book entry bonds; (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, which must be satisfied in order for the redemption to take place on the scheduled date of redemption, including, as described above under the heading "Optional Redemption," that Eligible Funds are available to pay any redemption premium or the redemption price, as and if applicable, on the Bonds; and (ix) any other descriptive information needed to identify accurately the Bonds being redeemed.

Each notice of redemption shall state that further interest on such 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 shall also be sent by first class mail, overnight delivery service, facsimile transmission or other secure means, postage prepaid, to the Credit Facility Provider, to the Servicer, to the Construction Lender, to the Rating Agency, to all of the Securities Depositories and to the Information Service that disseminates securities redemption notices, when possible, not later than the time of mailing of notices required by the first paragraph above, and in any event no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall 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 shall send a second notice of redemption within sixty

(60) days following the redemption date, by first class 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 as of the Record Date immediately preceding the redemption date, who have not surrendered their Bonds for redemption within thirty (30) days following the redemption date.

Failure to give notice by mailing to the registered Owner of any Bond designated for redemption or to any depository or information service shall not affect the validity of the proceedings for the redemption of any other Bond if notice of such redemption shall have 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 under the heading “Notice of Redemption” above and if either there were no conditions to such redemption or the conditions have been satisfied, 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 but subject to the rights of the Construction Lender described under the heading “Special Purchase in Lieu of Redemption” below, at any time 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 and shall be given no later than 5:00p.m., Washington, D.C. time, on the Business Day immediately 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 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 Fund which would have been used to pay the redemption price for such Bonds if such Bonds had been redeemed rather than purchased.

Special Purchase in Lieu of Redemption

If all Bonds Outstanding are called for redemption in whole under paragraphs (ii), (v) or (vi) under the heading “Mandatory Redemption” above at any time during the Construction Phase, provided that a Construction Lender Default has not occurred or, at any time following the Trustee’s receipt of a Direction to Release, the Construction Phase Credit Facility is in effect, the Bonds may, in lieu of such redemption, be purchased (“Special Purchased Bonds”) by the Trustee, at the written direction of the Construction Lender to the Trustee, for the account of the Construction Lender, so long as the Credit Facility Provider has received, from amounts on deposit in the Freddie Mac Collateral Fund and the Project Account of the Bond Mortgage Loan Fund, an amount equal to the Construction Phase Collateral Requirement or, if applicable, the Construction Lender has fully and timely honored, and has paid the Credit Facility Provider the full amount drawn by the Credit Facility Provider under, the Construction Phase Credit Facility. Any purchase of Bonds as described under this heading shall be in whole and not in part. Such purchase shall be made on the date the Bonds are otherwise scheduled to be redeemed (the “Special Purchase Date”). The purchase price of the Special Purchased Bonds (the “Special Purchase Price”) shall be equal to the principal amount of the Special Purchased Bonds, plus accrued interest, if any, on the Special Purchased Bonds to the Special Purchase Date. The payment source shall consist solely of funds to be advanced by the Credit Facility Provider under the Credit Facility.

BOOK-ENTRY ONLY SYSTEM

The information in this heading concerning The Depository Trust Company (“DTC”) and DTC’s Book-Entry System has been obtained from DTC and has not been independently verified by the Issuer, the Trustee, the Borrower, the Underwriter, Freddie Mac, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Issuer, the Trustee, the Borrower, the Underwriter, Freddie Mac, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of each issue of the Bonds, each in the aggregate principal amount of such maturity, 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.dtc.org.

Purchases of the 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 Financing 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, if any, will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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).

Principal, premium, redemption proceeds, distributions and interest 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 Issuer or the Trustee, on each payment 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, the Borrower or the 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 Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The 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.

So long as Cede & Co., or any successor thereto, is the registered owner of the Bonds, as DTC's partnership nominee, references herein to the Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS" herein) shall mean DTC, as aforesaid, and shall not mean the Beneficial Owners of the Bonds. During such period, the Trustee and the Issuer will recognize DTC or its partnership nominee as the owner of all of the Bonds for all purposes, including the payment of the principal of, premium, if any, and interest on the Bonds, as well as the giving of notices and voting.

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 Freddie Mac of the Freddie Mac Reimbursement Amount and the Freddie Mac Credit Enhancement Fee in accordance with the provisions of the Indenture and of the Credit Enhancement Agreement and the Reimbursement Agreement, or the payment of amounts due and owing to any other Credit Facility Provider following the termination of the Credit Enhancement Agreement, and the performance and observance by the Issuer of all the covenants expressed or implied 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 (but none of the obligations) of the Issuer in and to the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage (other than the Unassigned Rights) and the Credit Facility, 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 money, 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.

(c) Except for funds, money or securities in the Cost of Issuance Fund, the Administration Fund, the Borrower Equity Account, the Credit Facility Reimbursement Fund, the Freddie Mac Collateral Fund and the Rebate Fund, all funds, money and securities and any and all other rights and interests in property whether tangible or intangible from time to time hereafter 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 hereby 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

THE BONDS AND INTEREST THEREON 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 ISSUER, THE STATE OF CALIFORNIA, OR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER OR ANY OTHER SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. THE FAITH AND CREDIT OF NEITHER THE ISSUER, NOR THE STATE, NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS.

THE BONDS ARE NOT AND SHALL NOT BE A DEBT OF THE UNITED STATES OF AMERICA, ANY AGENCY OF THE UNITED STATES OF AMERICA, OR OF FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC. PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS IS NOT GUARANTEED BY FREDDIE MAC. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT ARE OBLIGATIONS SOLELY OF FREDDIE MAC AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

Any obligation of the Issuer under the Indenture to the Credit Facility Provider by reason of the pledge of the Trust Estate for the benefit of the Credit Facility Provider pursuant to the granting clause of the Indenture shall be limited as provided therein.

The Credit Enhancement Agreement

In addition to the other security provided under the Indenture, the Bonds will be secured by the Credit Enhancement Agreement. 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 (in the event of a purchase in lieu of redemption) of the Bonds in accordance with the terms of the Indenture and Credit Enhancement Agreement. The obligations of Freddie Mac under the Credit Enhancement Agreement are unsecured obligations of Freddie Mac. See “FREDDIE MAC” herein and Appendix B, “FORM OF CREDIT ENHANCEMENT AGREEMENT” hereto.

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.

Provisions for an Alternate Credit Facility

The Borrower, pursuant to the Financing Agreement, is permitted, with (i) the written confirmation to the Trustee of the Credit Facility Provider that the provisions of the Reimbursement Agreement have been satisfied and (ii) the written consent of the Construction Lender (but without the consent of the Issuer, the Trustee or the Bondholders), to provide an Alternate Credit Facility to replace the then existing Credit Facility on any Interest Payment Date occurring on or after the date that the Bonds may first be optionally redeemed at a price of not greater than par plus accrued interest to the redemption date, and, without the consent of the Borrower (and without the consent of the Issuer, the

Trustee or the Bondholders), the Credit Facility Provider may provide any other form of “credit support” in substitution for the then existing Credit Facility, provided that, in either case, the conditions of the Financing Agreement are satisfied.

Upon receipt by the Trustee of a form of the Alternate Credit Facility to be in effect on and after the Substitution Date and a form of the documents required pursuant to the Financing Agreement, the Trustee shall establish the Substitution Date. Such Substitution Date shall be not less than fifteen (15) 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. The existing Credit Facility shall remain in effect until the effective date of the Alternate Credit Facility and shall be drawn upon on the Substitution Date, provided that substitution shall only occur if the existing Credit Facility Provider is immediately reimbursed for such draw (along with any fees and other costs that may be associated with such draw).

The Trustee shall give notice to the Holders of the Bonds, by first class mail not less than nine days before the Substitution Date specifying: (i) the Substitution Date; (ii) the Alternate Credit Facility; and (iii) that the rating then assigned to the Bonds will not be adversely affected by such substitution. See “SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT—Alternate Credit Facility” herein.

SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT

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

Defined Terms

Capitalized terms used under this heading and not defined hereunder or elsewhere in this Official Statement will have the meanings assigned thereto in the Reimbursement Agreement.

General

The obligations of the Borrower to Freddie Mac under the Credit Enhancement Agreement will be evidenced by the Reimbursement Agreement. Under the Reimbursement Agreement, the Borrower will be obligated to repay Freddie Mac all sums of money Freddie Mac has advanced to the Trustee under the Credit Enhancement Agreement. The Reimbursement Agreement also provides that the Borrower is to pay the Freddie Mac Credit Enhancement Fee, the Servicing Fee, make scheduled monthly payments and deposits to fund certain collateral accounts and other reserves (which have been established solely for the benefit of Freddie Mac) and other fees and expenses as provided therein.

Events of Default

Under the provisions of the Reimbursement Agreement, Freddie Mac may declare an Event of Default under the Reimbursement Agreement if any one of the following occurs:

(a) the Borrower fails to pay when due any amount payable by the Borrower under the Reimbursement Agreement, including, without limitation, any fees, costs or expenses;

(b) the Borrower fails to perform its obligations under the Reimbursement Agreement relating to maintaining the tax-exempt status of the Bonds, maintaining its character as a single purpose entity, amending or modifying its organizational documents without Freddie Mac's consent, dissolving or liquidating in whole or in part, refunding the Bonds within six months of acquiring the Project, permitting subordinate financings with respect to the Project or prepaying the Bond Mortgage Loan except in accordance with the Reimbursement Agreement;

(c) the Borrower fails to observe or perform any other term, covenant, condition or agreement set forth in the Reimbursement Agreement, which failure continues for a period of 30 days after notice of such failure by Freddie Mac to the 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 Reimbursement Agreement, the Bond Mortgage, the Reimbursement Mortgage or any other Reimbursement Security Document, in which case no Event of Default will be deemed to exist so long as Borrower shall have 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); provided, 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 Reimbursement Agreement, result in harm to Freddie Mac; or impairment of the Reimbursement Agreement, the Bond Mortgage, the Reimbursement Mortgage or any other Reimbursement Security 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 Reimbursement Agreement, in any other Borrower Document or in any certificate delivered by the Borrower to Freddie Mac or to the Servicer pursuant to the Reimbursement Agreement or any other Borrower Document is inaccurate or incorrect in any material respect when made or deemed made;

(f) prior to Conversion, the Trustee draws upon the Credit Enhancement Agreement for any reason other than to make a regularly scheduled payment of interest and principal with respect to the Bond Mortgage Loan or a payment of interest and principal in connection with a Loan Equalization Payment;

(g) prior to Conversion, Freddie Mac is given a "Direction to Draw" (as defined in the Construction Phase Financing Agreement) by the Construction Phase Credit Facility Provider;

(h) the occurrence of a "Borrower Default" or "Construction Lender Default" (as such terms are defined in the Construction Phase Financing Agreement) prior to Conversion;

(i) the Borrower fails to pay the amount required by the Reimbursement Agreement should the Project lose all or a portion of the tax abatement for the Project or, after paying such amount, the Borrower fails to provide redemption directions to the Trustee if so directed by Freddie Mac; or

(j) a default or event of default occurs under the terms of any other indebtedness permitted to be incurred by the Borrower (after taking into account any applicable cure period).

Remedies

Upon the occurrence of an Event of Default under the Reimbursement Agreement, Freddie Mac may declare all the obligations of the Borrower under the 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 any 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 Reimbursement Mortgage or the Bond Mortgage, including, but not limited to, the following actions: (i) 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; (ii) give written notice to the Trustee stating that an Event of Default under the Reimbursement Agreement has occurred and is continuing and directing the Trustee to cause the mandatory redemption (or purchase in lieu) of the Bonds; and (iii) exercise any rights and remedies available to Freddie Mac under any of the Borrower Documents. Also, following an Event of Default under the Reimbursement Agreement, Freddie Mac may exercise the same rights, powers, and remedies with respect to the UCC Collateral (as defined in the Reimbursement Agreement) that the Borrower may exercise, which rights, powers and remedies are incorporated therein by this reference for all purposes. In furtherance and not in limitation of the foregoing, Freddie Mac will have all rights, remedies and recourses with respect to the UCC Collateral granted in the Borrower Documents and any other instrument executed in connection therewith, or existing at common law or equity (including specifically those granted by the Uniform Commercial Code as adopted by the State and any other state in which the filing of a UCC financing statement is necessary to perfect Freddie Mac's security interest), the right of offset, the right to sell the UCC Collateral at public or private sale, and the right to receive distributions to the Borrower.

Freddie Mac has the right, to be exercised in its discretion, to waive any Event of Default under the 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.

Reimbursement Mortgage

The obligations of the Borrower under the Reimbursement Agreement will be secured by, among other things, the Reimbursement Mortgage. The Reimbursement Mortgage will be subordinate to the Bond Mortgage, subject to the terms of the Intercreditor Agreement. Bondholders will have no rights under and are not third-party beneficiaries under the Reimbursement Mortgage.

Amendments

The 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 under this heading has been provided solely by Freddie Mac and has not been independently verified by the Issuer, the Trustee, the Borrower, the Underwriter, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Issuer, the Trustee, the Borrower, the Underwriter, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel. 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.OFHEO.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, to be known as Taylor Oaks Apartments, is located on an approximately 1.24-acre site on 2726-2738 Kollmar Drive in San José, California. The Project was built in 1959 and is composed of two three-story and six two-story wood-frame buildings. The Project received minor rehabilitation in 2008. The Project will be transferred to the Borrower on the Release Date and will subsequently be known as Taylor Oaks Apartments. The Borrower expects to spend approximately \$2,300,000 on the rehabilitation of the Project. Rehabilitation will consist of all new flooring, cabinets, appliances, windows, fixtures, addition of A/C units, repairing or replacing deck coatings and railings, seismic retrofit of “soft-story” under building parking areas, interior and exterior painting, new roof, landscaping, fencing, paving and the creation of a new community space with kitchen and private office area for providing resident services. Rehabilitation is expected to commence in October, 2011 and be completed in October, 2012. The Project, now 60 units, will ultimately contain 59 units, including one manager’s unit, located in 8 residential buildings comprising approximately 30,348 square feet. The existing manager unit will be converted to a new community space.

The Project amenities are expected to include a large children’s play area, pool, community space with kitchen, bathroom, private office area and living area. The Project is expected to include 59 reserved, covered parking spaces.

The unit mix of the Project is as follows:

Number of Units	Composition	Approximate Square Footage
16	Studio – 1 Bath	388
14	1 Bedroom – 1 Bath	480
28	2 Bedroom – 1 Bath	605
1 (manager’s unit)	1 Bedroom – 1 Bath	480

Regulatory Agreements

Tax Regulatory Agreement. The Regulatory Agreement and Declaration of Restrictive Covenants (the “Tax Regulatory Agreement”) imposes certain requirements with respect to the

tax exempt status of the Bonds under the Code, which include a set aside of 20% of the units for rental to persons or families having incomes at or below 50% of area media gross income, adjusted for family size and determined in accordance with the Section 142(d) of the Code, with the rents on these units being limited to 30% of an amount equal to 50% of area median income. See “SUMMARY OF CERTAIN PROVISIONS OF THE TAX REGULATORY AGREEMENT” for a description of the requirements affecting the operation of the Project in order to assure compliance with the Code.

NSPII Regulatory Agreement. [To Come]

Tax Credit Regulatory Agreement. In connection with the sale of low-income housing tax credits by the Borrower, the Borrower will execute a tax credit regulatory agreement with the California Tax Credit Allocation Committee in accordance with Section 42 of the Code. Pursuant to this agreement, the Borrower must, among other things, rent [100]% of the residential rental units in the Project to individuals or households earning [60]% or less of area median gross income for the area in which the Project is located, adjusted for household size, as determined by the United States Department of Housing and Urban Development. Monthly rents on such units in the Project are limited to 1/12 of 30% of [60]% of the applicable area median gross income for the area in which the Project is located, adjusted for an imputed household size. The tenant income limits and rental restrictions under Section 42 of the Code assume that studio apartments are occupied by one person and that one-bedroom apartments are occupied by an average of 1.5 persons. Violation of the tax credit covenants and restrictions may result in loss or recapture of tax credits and penalties against the members of the Borrower, among other things.

The Borrower

The Borrower is Taylor Oaks Apartments Investors, L.P., formed for the sole purpose of acquiring, rehabilitating and operating the Project. The general partner of the Borrower is FTF Taylor Oaks LLC, a limited liability company, owned solely by For the Future Housing Inc., a California Corporation formed in 2010 for the purpose of developing and owning affordable housing apartments throughout California. This LLC was formed for the sole purpose of the joining the L.P. The Managing general partner will be Pacific Housing Inc., a California nonprofit public benefit corporation (the “General Partner”). Together, FTF Taylor Oaks LLC and Pacific Housing Inc. will own a <0.01% ownership interest in the Borrower.

Pacific Housing Inc., the Managing General Partner, was formed for the beneficial interest of the public sector that cannot afford conventional housing. Currently, as the managing general partner in various partnerships, holds an indirect ownership interest in apartment complexes containing approximately 10,490 units in the State of 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 an affiliate or affiliates of Churchill Stateside Group., a Florida Corporation a 99.99% ownership interest in the Borrower. Pursuant to the sale, the funding of the tax credit equity is expected to total approximately \$3,158,998 with an initial contribution of \$631,800 anticipated to be funded at the Bond Closing. The funding levels and the timing of the funding are subject to numerous adjustments and conditions which 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.

The Contractor

The Contractor for the Development will be Michael Roberts Construction (MRC), Inc., a California corporation (the “Contractor”). MRC is an affiliated company to the General Partner and Developer: For the Future Housing Inc. The Contractor, its component construction companies and their staff, officers and directors have constructed and rehabilitated thousands of units of multifamily rental housing developments. MRC incorporated in 2003.

The Architect

The architect for the Development is KTG Y Group, Inc., a California corporation doing business as KTG Y (the “Architect”). The Architect has been the principal architect for hundreds of residential projects, including dozens of LIHTC multifamily developments.

Property Management

The Project will be managed by FPI Management Inc., a California corporation (the “Manager”). The Manager has been involved in the management of apartment complexes for over 40 years. The Manager currently manages approximately 427 apartment complexes comprising a total of approximately 61,418 units located on the west coast. Of these, 24,640 units are affordable housing including LIHTC.

Limited Recourse to Borrower

The Borrower and its partners will not (subject to certain exceptions to nonrecourse liability set forth in the Reimbursement 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; nor will the Borrower (subject to certain exceptions to nonrecourse liability set forth in the Reimbursement Agreement) be personally liable under the other documents executed in connection with the issuance of the Bonds and the making of the Bond Mortgage Loan. 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 project costs of the Project are estimated by the Borrower to be \$12,931,824. The sources of funds for the Project are projected to be approximately as follows:

Sources of Funds	
Investor Capital	\$3,158,998
Permanent Loan	3,700,000
City Loan/ NSPII Loan	5,250,000
Accrued Interest	250,963
Interest Income	17,518
Lease Up Income	376,782
Deferred Developer Fee	177,563
Total	<u>\$ 12,931,824</u>

Projected uses of funds are as follows:

Uses of Funds	
Property Acquisition - Building	\$4,860,000
Property Acquisition - Land	1,240,000
Relocation	1,095,261
Rehabilitation	2,016,530
General Requirements	120,992
Developer Fee	1,033,147
Miscellaneous Costs and Fees	2,565,894
Total	<u>\$ 12,931,824</u>

THE SERVICER

The information under this heading has been provided solely by the Servicer and has not been independently verified by the Issuer, the Trustee, the Borrower, the Underwriter, Freddie Mac, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Issuer, the Trustee, the Borrower, the Underwriter, Freddie Mac, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel.

Citibank, N.A. (the “Servicer”) will perform mortgage servicing functions with respect to the Bond Mortgage Loan pursuant to the 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

* Preliminary; subject to change.

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 Reimbursement Agreement and the Borrower Documents.

THE TRUSTEE

The information under this heading has been provided solely by the Trustee and has not been independently verified by the Issuer, the Borrower, the Underwriter, Freddie Mac, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Issuer, the Borrower, the Underwriter, Freddie Mac, the Servicer, the Construction Lender or any of their respective counsel, members, officers or employees or Bond Counsel.

The Issuer has appointed Wells Fargo Bank, National Association, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture and Bond Financing Documents. Except for the contents of this heading, 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.

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 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. 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 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. See "THE BONDS—Mandatory Redemption" in this Official Statement. 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 Commitment. If Conversion does not occur, the Bonds will be subject to mandatory redemption or purchase in whole, as described above.

Credit Facility as Primary Security for Bonds

In the event of the occurrence of any event precluding Freddie Mac from honoring its obligations to make payments as required in the Credit Facility, 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 of, 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 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 Freddie Mac's ability to pay amounts due under the Credit Facility. See "RATING" herein, and "APPENDIX B – FORM OF CREDIT ENHANCEMENT AGREEMENT" hereto.

A purchase of the Bonds is only suitable for investors able to analyze the credit of 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 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 Trustee fees, indemnification, certain legal fees 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.

THE BONDS AND INTEREST THEREON 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 ISSUER, THE STATE OF CALIFORNIA, OR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THE STATE, THE ISSUER OR ANY OTHER SUBDIVISION OF THE STATE IS LIABLE FOR THE PAYMENT OF THE BONDS. THE FAITH AND CREDIT OF NEITHER THE ISSUER, NOR THE STATE, NOR OF ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE 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.

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 Tax Regulatory Agreement which are designed, if complied with, to satisfy the continuing compliance requirements of 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 and in the case of certain optional redemptions, a redemption premium, 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 Loan Documents. See “THE BONDS – Optional Redemption” and “– Mandatory Redemption” herein.

Economic Feasibility

The economic feasibility of the Project depends in large part upon its being substantially occupied at projected rent levels. In addition, the Project is subject to income and rent restrictions as described under the caption “THE PROJECT AND THE PRIVATE PARTICIPANTS—Regulatory Agreements” herein. 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, affiliates of the Borrower, and persons who may or may not be affiliated with the Issuer or the Borrower may own, finance, develop, construct, or rehabilitate and operate other facilities in the area of the Project that could compete with the Project. Any competing facilities, if so constructed or rehabilitated, 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.

Additional Bonds and Additional Subordinate Financing

The Borrower may obtain additional financing for the Project at a future date. Such additional financing could be in the form of additional bonds issued by the Issuer. Additional bonds could be issued on a parity basis with the Bonds pursuant to a supplemental trust indenture provided that the issuance of each additional bond is not materially adverse to the interest of the Bondholders. Such additional financing could also be in the form of a conventional loan the payment obligations with respect to which would be subordinate to, or in some cases could be on a parity with, the Borrower’s payment obligations under the Bond Mortgage Loan. In either case, the increased repayment obligations of the Borrower could increase the likelihood of a default by the Borrower and an early redemption of the Bonds. Any such redemption would be at a price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Secondary Market and Prices

It has been the practice of the Underwriter to maintain a secondary market in municipal securities it sells, and the Underwriter currently intends to engage in secondary market trading of the Bonds, subject to applicable securities laws. The Underwriter, however, is not obligated to engage in secondary trading or to repurchase any of the Bonds at the request of the owners thereof. Because of general market conditions or because of adverse history or economic prospects connected with a particular issue or issuer, secondary marketing activity in connection with a particular issue may be suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price. **THERE CAN BE NO GUARANTEE THAT THERE WILL BE A SECONDARY MARKET FOR THE BONDS, OR IF A SECONDARY MARKET EXISTS, THAT THE BONDS CAN BE SOLD FOR ANY PARTICULAR PRICE.**

Environmental Matters

Under the federal Comprehensive Environmental Response, Compensation and Liability Act and under comparable State law, a secured party that takes a deed in lieu of foreclosure, purchases a mortgaged property at a foreclosure sale or operates a mortgaged property may become liable in certain circumstances for the cost of remedial action (“Remedial Action Costs”) if hazardous waste or hazardous substances have been released or disposed of on the property. Such Remedial Action Costs could subject all or a portion of the Project to a lien and reduce or eliminate the amounts otherwise available to pay the owners of the Bonds if such Remedial Action Costs were incurred.

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

The Indenture provides that the Trustee shall establish, maintain and hold in trust the following funds and accounts, each of which is established and each of which shall be disbursed and applied only as authorized under the Indenture:

- (a) Bond Mortgage Loan Fund, and within the Bond Mortgage Loan Fund a Borrower Equity Account and a Project Account, and within the Project Account a Series A Subaccount and a Series B Subaccount;
- (b) Revenue Fund, and within the Revenue Fund a General Account and a Credit Facility Account;
- (c) Bond Fund, and within the Bond Fund a Purchased Bonds Account;
- (d) Redemption Fund;

- (e) Administration Fund;
- (f) Cost of Issuance Fund;
- (g) Credit Facility Reimbursement Fund, and within the Credit Facility Reimbursement Fund a Credit Facility Principal Reimbursement Account and a Credit Facility Interest Reimbursement Account;
- (h) Freddie Mac Collateral Fund; and
- (i) Rebate Fund.

The funds and accounts established under the Indenture shall be maintained in the corporate trust department of the Trustee as segregated trust accounts, separate and identifiable from all other funds held by the Trustee. The funds and accounts established under the Indenture will 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 Credit Facility Reimbursement Fund and the Freddie Mac Collateral Fund, (iii) the Borrower, respecting the Administration Fund and the Cost of Issuance Fund, and (iv) the Issuer, respecting the Rebate Fund. The Trustee shall, at the written direction of an Authorized Officer 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

Deposit. The Trustee shall deposit the proceeds of the sale of the Bonds into the Project Account of the Bond Mortgage Loan Fund as provided in the Indenture. The Trustee shall deposit the Borrower Equity Deposit into the Borrower Equity Account of the Bond Mortgage Loan Fund, as well as any additional amounts delivered from time to time to the Trustee and directed by the Borrower or Servicer to be deposited therein (excluding any proceeds of the Bonds), as provided in the Indenture.

Disbursements. Amounts on deposit in the Bond Mortgage Loan Fund shall be disbursed from time to time by the Trustee for the purpose of paying Costs of the Project. In addition, amounts on deposit in the Borrower Equity Account of the Bond Mortgage Loan Fund shall be disbursed from time to time by the Trustee for the purpose of (i) reimbursing the Credit Facility Provider for draws under the Credit Facility to pay interest on the Bonds and (ii) paying (1) the Bond Fee Component, (2) any fees due and payable to the Credit Facility Provider, (3) any fees due and payable to the Construction Lender or (4) Costs of the Project. In addition, amounts in the Bond Mortgage Loan Fund shall be transferred to the Redemption Fund, the Rebate Fund and the Borrower at the times and in the manner provided in the Indenture.

Transfers and Requisition. The Trustee shall automatically transfer amounts from the Borrower Equity Account of the Bond Mortgage Loan Fund, without any need for a Requisition or other written direction, to (i) the Administration Fund to pay to the appropriate party its accrued fees that are included in the Bond Fee Component that are due and payable as set forth herein or upon receipt of an invoice, to the Credit Facility Provider any fees due and payable as set forth in the Reimbursement Agreement and to the Construction Lender any fees due and payable upon receipt of an invoice, and (ii) the Credit Facility Interest Reimbursement Account of the Credit Facility Reimbursement Fund to reimburse the Credit Facility Provider for draws under the Credit Facility to pay interest on the Bonds, should the amount in the Credit Facility Interest Reimbursement Account be insufficient to reimburse the Credit Facility Provider for any such draw pursuant to the Indenture. The Trustee shall make disbursements from the respective accounts of the Bond Mortgage Loan Fund for the purpose of paying Costs of the Project (as described in the first sentence under the subheading “Disbursements” above) only upon the receipt of Requisitions signed by an Authorized Officer of the Borrower and countersigned by an Authorized Officer of the Construction Lender (signifying the consent to the Requisition by the Construction Lender). The Trustee shall have no right or duty to determine whether any requested disbursement from the Bond Mortgage Loan Fund complies with the terms, conditions and provisions of the Construction Loan Documents. The countersignature of the Authorized Officer of the Construction Lender on a Requisition shall be deemed a certification and, insofar as the Trustee and the Issuer are concerned, constitute conclusive evidence, that all of the terms, conditions and requirements of the Construction Loan 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 Officer of the Borrower and countersigned by an Authorized Officer of the Construction Lender, initiate procedures with the provider of a Qualified Investment to make withdrawals as necessary to fund the Requisition.

Notwithstanding anything to the contrary contained in the immediately preceding paragraph, but subject to the immediately succeeding paragraph under this heading, (i) no signature of an Authorized Officer of the Borrower shall be required during any period in which a default has occurred and is then continuing under the Bond Mortgage Loan or any Construction Loan Document (notice of which default has been given in writing by the Construction Lender 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) the Trustee shall disburse amounts in the Bond Mortgage Loan Fund upon receipt of a Requisition signed only by the Construction Lender (and without any need for any signature by an Authorized Officer of the Borrower or Servicer), with notice to the Borrower, so long as the amount to be disbursed is to be used solely to make payments of interest and fees due under the Bond Mortgage Loan Documents or the Construction Loan Documents.

Notwithstanding anything to the contrary contained in the Indenture or any other Bond Financing Document, prior to receipt by the Trustee of a Direction to Release, the Trustee shall not make any disbursement from the Project Account of the Bond Mortgage Loan Fund until the Trustee shall have ascertained that, after giving effect to the disbursement to be made in accordance therewith, the sum of (A) amounts deposited and held in the Project Account of the Bond Mortgage Loan Fund plus (B) amounts deposited and held in the Freddie Mac Collateral Fund (disregarding any investment earnings thereon) will not be less than the Construction Phase Collateral Requirement.

Timing. If a Requisition signed by an Authorized Officer of the Borrower and countersigned by an Authorized Officer of the Construction Lender or (as permitted under the Indenture) solely by an Authorized Officer of the Construction Lender, is received by the Trustee, the requested disbursement shall be paid by the Trustee as soon as practicable, but in no event later than three (3) Business Days after the later of (i) receipt thereof by the Trustee and (ii), if from the Project Account of the Bond Mortgage Loan Fund prior to receipt by the Trustee of a Direction to Release, the determination by the Trustee that, after giving effect to the disbursement to be made in accordance therewith, the sum of (A) amounts deposited and held in the Project Account of the Bond Mortgage Loan Fund plus (B) amounts deposited and held in the Freddie Mac Collateral Fund (disregarding any investment earnings thereon) will not be less than the Construction Phase Collateral Requirement. Upon final disbursement of all amounts on deposit in the Bond Mortgage Loan Fund, including all interest accrued therein, the Trustee shall close the Bond Mortgage Loan Fund.

Transfers to Effect Certain Mandatory Redemptions of Bonds. Immediately prior to any mandatory redemption of Bonds as described herein in paragraphs (ii), (v) and (vi) under the heading “THE BONDS – Mandatory Redemption,” any amount then remaining in 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 reimburse the Credit Facility Provider for the related redemption of Bonds as described herein in paragraphs (ii), (v) and (vi) under the heading “THE BONDS – Mandatory Redemption.” In addition, any amount remaining in the Project Account of the Bond Mortgage Loan Fund upon the earlier of (a) the Conversion Date 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 Loan Documents, or (b) the Forward Commitment Maturity Date shall be transferred to the Redemption Fund and used to reimburse the Credit Facility Provider for the related redemption of Bonds as described herein in paragraph (iv) under the heading “THE BONDS – Mandatory Redemption.” Furthermore, any amount remaining in the Borrower Equity Account of the Bond Mortgage Loan Fund upon the earlier of (a) the Conversion Date 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 Loan Documents, or (b) the Forward Commitment Maturity Date, and provided no default by the Borrower exists under the Indenture or any Bond Mortgage Loan Document, such funds shall be paid by the Trustee to the Borrower at the written direction of the Credit Facility Provider.

Investment Income on Bond Mortgage Loan Fund. Amounts on deposit in the Bond Mortgage Loan Fund shall be invested as described under the heading “Investment of Funds” below. All Investment Income 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 the Bond Mortgage Loan Fund, and shall constitute part of any transfers required by the Indenture and described under this heading.

Application of Revenues

All Revenues 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 provisions of the Indenture; (ii) amounts paid pursuant to the Credit Facility, which shall be deposited in the

Credit Facility Account; (iii) as otherwise specifically provided in the Indenture with respect to certain deposits into the Redemption Fund; (iv) with respect to Investment Income to the extent required under the terms of the Indenture to be retained in the funds and accounts to which they are attributable; and (v) with respect to amounts required to be transferred between funds and accounts as provided in the Indenture.

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 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 and interest on any Purchased Bonds and excluding the principal constituting a mandatory sinking fund payment on any Bonds on such date and, prior to the Conversion Date, taking into account amounts in the Project Account of the Bond Mortgage Loan Fund available to make such payments); and

SECOND: to the Redemption 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 money in the General Account, such amount as the Credit Facility Provider shall advise the Trustee is equal to the interest due on the Purchased Bonds on such date.

Promptly 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, 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; (iii) Eligible Funds (other than draws under the Credit Facility) paid to the Trustee to be applied to the payment of any redemption premium in connection with an optional redemption of all or a portion of the Bonds pursuant to the Indenture; and (iv) amounts transferred to the Redemption Fund from the Bond Mortgage Loan Fund pursuant to the Indenture.

Should the amount in the Bond Fund 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; and (2) the Redemption Fund, except no such charge to the Redemption Fund shall be made from money to be used to effect a redemption for which notice of redemption has been provided for or from money which is held for payment of Bonds which are no longer Outstanding under the Indenture.

At the written direction of the Borrower, and with the written consent of the Credit Facility Provider and the Construction Lender, together with a certificate setting forth that no default exists under the Bond Mortgage Loan Documents signed by the Servicer, Investment Income deposited into the General Account of the Revenue Fund shall be paid to the Borrower semi-annually on each Interest Payment Date, commencing on the first Interest Payment Date after Conversion occurs, so long as (i) there is no deficiency in the Credit Facility Reimbursement Fund, the Administration Fund, the Rebate Fund, the Freddie Mac Collateral Fund or any Custodial Escrow Account, (ii) no default exists under the Bond Mortgage Loan and (iii) no event of default exists under any of the Bond Mortgage Loan Documents.

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 described 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. Any balance remaining in the Bond Fund on the Business Day immediately succeeding an Interest Payment Date shall be transferred to the Servicer for payment to the Credit Facility Provider to be applied in accordance with the Reimbursement Agreement.

Any Investment Income on amounts on deposit 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.

Application of Redemption Fund

Any money credited to the Redemption Fund shall be applied as described under the heading "Application of Revenues" above; provided, however, that to the extent any money credited to the Redemption Fund from Eligible Funds (other than draws under the Credit Facility) is in excess of the amount necessary to effect the redemptions as provided in the Indenture shall be applied to make up any deficiency in the Bond Fund on any Interest Payment Date, to the extent money then available in accordance with the Indenture in the General

Account of the Revenue Fund is insufficient to make up such deficiency, provided that no money 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 money which is 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, any Investment Income on amounts on deposit 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

The Trustee shall deposit into the Administration Fund, promptly upon receipt thereof, all amounts received from the Servicer, the Borrower and, prior to the Conversion Date, the Construction Lender designated for deposit into such fund. Prior to the earlier of the Conversion Date or the payment in full of all Bonds Outstanding, 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, the payment of any fees due and payable to Freddie Mac under the Reimbursement Agreement; and third, to the Construction Lender any fees due and payable under the Construction Loan Agreement and the Construction Phase Credit Reimbursement Agreement. Thereafter, amounts in the Administration Fund shall be withdrawn or maintained, as appropriate, by the Trustee and used FIRST, to pay to the Trustee when due the Ordinary Trustee's Fees and Expenses; SECOND, to pay to the Issuer when due the Issuer Fee; THIRD, to pay when due the reasonable fees and expenses of a Rebate Analyst 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; FOURTH, 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 such an account) to the Trustee; FIFTH, 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 Borrower and Freddie Mac; SIXTH, to pay to the Issuer any extraordinary expenses it may incur in connection with the Bonds or the Indenture from time to time, as set forth in an invoice submitted to the Trustee and Freddie Mac; SEVENTH, 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; EIGHTH, 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; NINTH, to make up any deficiency in the Redemption Fund on any redemption date of Bonds, to the extent money then available in accordance with the Indenture in the Redemption Fund is insufficient to redeem Bonds called for redemption on such redemption date; TENTH, to pay to the Dissemination Agent when due the Dissemination Agent's Fee; ELEVENTH, to pay to the Rating Agency when due the annual rating maintenance fee, if any, as set forth in an invoice submitted to the Trustee; and TWELFTH, 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 provided 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, any Investment Income on amounts on deposit in the Administration Fund not needed to pay the foregoing amounts shall be credited by the Trustee to the General Account of the Revenue Fund.

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

Credit Facility Reimbursement Fund

(a) The Trustee shall deposit into the Credit Facility Interest Reimbursement Account of the Credit Facility Reimbursement Fund, promptly upon receipt thereof, all amounts received from the Servicer, including but not limited to scheduled monthly interest collections pursuant to the Reimbursement Agreement, and, prior to the Conversion Date, all amounts received from the Borrower and the Construction Lender, designated for deposit into such account. Amounts on deposit in the Credit Facility Interest Reimbursement Account shall be applied by the Trustee to reimburse the Credit Facility Provider for amounts drawn under the Credit Facility to pay interest on the Bonds. On each Interest Payment Date, the Trustee, without the need for any further direction, shall pay to the Credit Facility Provider by no later than 2:30 p.m., Washington, D.C. time, from and to the extent of amounts on deposit in the Credit Facility Interest Reimbursement Account, an amount equal to the amount drawn by the Trustee under the Credit Facility to pay interest on the Bonds on such date.

(b) The Trustee shall deposit into the Credit Facility Principal Reimbursement Account of the Credit Facility Reimbursement Fund, promptly upon receipt thereof, all amounts received from the Servicer designated for deposit into such account, including but not limited to scheduled monthly principal deposits pursuant to the Reimbursement Agreement, and, prior to the Conversion Date, all amounts received from the Borrower and the Construction Lender, designated for deposit into such account. Amounts on deposit in the Credit Facility Principal Reimbursement Account shall be applied by the Trustee to reimburse the Credit Facility Provider for amounts drawn under the Credit Facility to pay principal on the Bonds. On each maturity date for the Bonds and each date the Bonds are subject to optional or mandatory redemption, the Trustee, without the need for any further direction, shall pay to the Credit Facility Provider by no later than 2:30 p.m., Washington, D.C. time, from and to the extent of amounts on deposit in the Credit Facility Principal Reimbursement Account, an amount equal to the principal amount drawn by the Trustee under the Credit Facility to pay or redeem Bonds in Authorized Denominations on such date.

(c) In the event that the amounts on deposit in the respective accounts in the Credit Facility Reimbursement Fund are insufficient to reimburse the Credit Facility Provider (as

described in the two preceding paragraphs) the full amount to be drawn under the Credit Facility to pay interest or principal on the Bonds, as applicable, the Trustee shall promptly give notice to the Credit Facility Provider, the Servicer and the Borrower of such deficiency and of the amount of such deficiency.

(d) All Investment Income on amounts on deposit in the Credit Facility Reimbursement Fund shall be retained in and credited to and become a part of the amounts on deposit in the respective accounts in such fund. Provided that (as confirmed by the Trustee with the Servicer or the Credit Facility Provider) (i) there is no deficiency in the Credit Facility Reimbursement Fund, the Administration Fund, the Rebate Fund, or any Custodial Escrow Account, (ii) no default exists under the Bond Mortgage Loan, (iii) no Event of Default exists under the Indenture or under any of the other Borrower Documents (as defined in the Reimbursement Agreement), and (iv) the Credit Facility Provider has been fully reimbursed for amounts drawn on the Credit Facility, the Trustee, without the need for any further direction, shall pay such Investment Income to the Borrower on the Interest Payment Date next succeeding receipt thereof (after making all payments specified under this heading).

(e) At the written direction of the Credit Facility Provider, the amounts on deposit in the Credit Facility Reimbursement Fund shall be used by the Trustee to pay any amounts required to be paid by the Borrower under any Bond Mortgage Loan Document, to pay any amounts owed to the Credit Facility Provider in connection with any loan purchased by the Credit Facility Provider and secured by the Project, or to pay any other amount agreed to in writing by the Borrower and the Credit Facility Provider; provided that the amounts on deposit in the Credit Facility Reimbursement Fund shall, upon the occurrence of an event of default under any Bond Mortgage Loan Document, be used in any manner and for any purpose specified by the Credit Facility Provider.

(f) At the written request of the Borrower, the Credit Facility Provider, in its sole and absolute discretion, may (i) consent to the release of all or a portion of the amounts on deposit in the Credit Facility Reimbursement Fund to the Borrower (in which case the Trustee shall release such amounts to the Borrower, provided that if, in the judgment of the Rebate Analyst, the amount on deposit in the Rebate Fund at such time is less than the amount required under the Indenture to be rebated to the United States Department of the Treasury, then prior to any such release to the Borrower, any amounts on deposit in the Credit Facility Reimbursement Fund (up to the amount of such deficiency) shall be transferred to the Rebate Fund) and/or (ii) reduce or no longer require deposits to the Credit Facility Reimbursement Fund.

(g) Any amounts remaining in the Credit Facility Reimbursement Fund after payment in full of the principal of and interest on the Bonds and reimbursement of the Credit Facility Provider for all amounts drawn under the Credit Facility shall be applied as provided in the Indenture.

Investment of Funds

The money held by the Trustee pursuant to the Indenture shall constitute trust funds for the purposes of the Indenture. Any money attributable to each of the funds and accounts under the Indenture shall be, except as otherwise expressly provided in the Indenture, invested by the

Trustee, at the written direction of the Borrower (or, in the case of the Rebate Fund, as otherwise provided in the Indenture), in Qualified Investments which mature or shall be subject to redemption or withdrawal at par without penalty on or prior to 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 amounts on deposit in the Credit Facility Reimbursement Fund and the Credit Facility Account of the Revenue Fund 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 redemption or withdrawal at par without penalty on or prior to the earlier of (i) 30 days from the date of investment and (ii) the date such money is required to be applied pursuant to the provisions of the Indenture. In the absence of written direction from the Borrower, the Trustee shall invest amounts on deposit in the funds and accounts established under the Indenture in Government Obligations or in investments of the type described in subparagraph (g) of the definition of Qualified Investments which shall have the same maturity and other restrictions as set forth above. Such investments may be made through the investment or securities department of the Trustee. The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, securities authorized under the Indenture. The Trustee shall be entitled to assume, absent receipt by the Trustee of written notice to the contrary, that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter.

Amounts on deposit in the Freddie Mac Collateral Fund shall be invested and reinvested by the Trustee in (i) non-AMT tax exempt obligations rated in the highest short term category by Moody's or S&P; or (ii) money market mutual funds (including funds of the Trustee or affiliates) registered under the Investment Company Act of 1940, as amended, investing solely in investments described in (i) which are rated in the highest short term category by Moody's or S&P, which in any case, shall mature or be subject to tender or redemption at par on or prior to the earlier of (A) 35 days from the date of investment or (B) the date such moneys are needed for the purposes thereof. All such investments shall be attributable to and deemed at all times to be a part of the Freddie Mac Collateral 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 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 the 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 money to another such fund or account, such investments may be transferred to that fund or account in lieu of the required money if permitted by 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 Fair Market Value (as defined in the Indenture).

Rebate Fund; Compliance with Tax Certificate

The Rebate Fund shall be established by the Trustee and held and applied as provided 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 the rebate requirement (as set forth in the Tax Certificate) and as calculated by the Rebate Analyst, for payment to the government of the United States of America, and neither the Issuer, the Borrower, the Credit Facility Provider nor the Bondholders shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the written instructions of the Issuer, Bond Counsel or the Rebate Analyst, including supplying all necessary information in the manner set forth in the Tax Certificate, and shall not be required to take any actions under the Tax Certificate in the absence of written instructions from the Issuer, Bond Counsel or the Rebate Analyst.

Within 55 days of the end of each fifth Bond Year, the Borrower shall cause the Rebate Analyst to calculate the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code)), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). Pursuant to the Financing Agreement, the Borrower shall cause the Rebate Analyst to provide such calculations to the Trustee and the Issuer. In the event that the Borrower fails to provide such information to the Trustee and the Issuer within 55 days of the end of each fifth Bond Year, the Trustee, at the expense of the Borrower, shall select the Rebate Analyst, with the prior written approval of the Issuer, and shall cause the Rebate Analyst to calculate the amount of rebatable arbitrage as required in the Indenture.

Within 55 days of the end of each fifth Bond Year, upon the written direction of the Issuer, Bond Counsel or the Rebate Analyst, an amount shall be deposited to the Rebate Fund by the Trustee from amounts provided by the Borrower, if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated as described in the preceding paragraph.

The Trustee shall pay, as directed by the Issuer, Bond Counsel or the Rebate Analyst, to the United States Department of the Treasury, out of amounts in the Rebate Fund:

(i) Not later than 60 days after the end of (A) the fifth Bond Year, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(ii) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

Each payment required to be made to the Internal Revenue Service Center, Ogden, Utah 84201 (or such other address provided in such direction), on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038 T, which shall be prepared by the Rebate Analyst and provided to the Trustee.

Notwithstanding any provision of the Indenture to the contrary, the obligation to remit payment of the Rebatable Arbitrage to the United States of America and to comply with all other requirements of the Financing Agreement and the Indenture, and the requirements of the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Borrower.

The Trustee shall obtain and keep such records of the computations made pursuant to the Indenture as are required under Section 148(f) of the Code to the extent furnished to the Trustee. The Borrower shall or shall cause the Rebate Analyst to provide to the Issuer and the Trustee copies of all rebate computations made pursuant to the Indenture. The Trustee shall keep and make available to the Borrower such records concerning the investments of the gross proceeds of the Bonds and the investments of earnings from those investments made by the Trustee as may be requested by the Borrower in order to enable the Borrower to cause the Rebate Analyst to make the aforesaid computations as are required under Section 148(f) of the Code.

Notwithstanding the foregoing, the computations and payments of Rebatable Arbitrage need not be made to the extent that neither the Issuer nor the Borrower will thereby fail to comply with any requirements of Section 148(f) of the Code based on an opinion of Bond Counsel, to the effect that such failure will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, a copy of which shall be provided to the Trustee, at the expense of the Borrower.

Cost of Issuance Fund

The Trustee shall use money 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 Borrower, as set forth in the closing memorandum prepared by the underwriter for the Bonds (and accepted and agreed to by the Issuer and the Borrower) on the Delivery Date or by Requisition, upon delivery to the Trustee of appropriate invoices for such expenses. Amounts in the Cost of Issuance Fund funded with proceeds of the Bonds, if any, shall be expended prior to the application of the Costs of Issuance Deposit. Investment Income on amounts on deposit in the Cost of Issuance Fund shall be retained in such fund. Amounts remaining on deposit in the Cost of Issuance Fund six (6) months after the Delivery Date shall be transferred to the Borrower Equity Account of the Bond

Mortgage Loan Fund. Upon such final disbursement, the Trustee shall close the Cost of Issuance Fund.

Payments Under Bond Mortgage Loan

The Trustee and the Issuer will expressly acknowledge 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 for which the Borrower has correspondingly reimbursed the Credit Facility Provider in an amount equal to the Guaranteed Payments. Without in any way limiting the foregoing, the Trustee and the Issuer will acknowledge that, following the Conversion Date, pursuant to the Guide, the Servicer will pay the Freddie Mac Credit Enhancement Fee 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 in lieu of redemption pursuant to the Indenture, to pay, to the extent provided in the Credit Facility, the Purchase Price (in the event of a purchase in lieu of redemption) of the Bonds in accordance with the Indenture.

The Trustee shall draw money under the Credit Facility in accordance with the terms thereof when needed and in amounts sufficient to make timely payments of the principal of and interest, but not premium, on the Bonds when due and payable (i.e., on any Interest Payment Date, any Settlement Date, any redemption date or the Maturity Date).

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.

Freddie Mac Collateral Fund

The Trustee shall deposit into the Freddie Mac Collateral Fund, promptly upon receipt thereof, each Construction Loan Advance, including the Initial Construction Loan Advance, received from the Construction Lender, designated for deposit into such fund. Income realized from the investment or deposit of money in the Freddie Mac Collateral Fund shall be deposited by the Trustee upon receipt thereof in the Freddie Mac Collateral Fund.

Upon receipt by the Trustee of money derived from a draw on the Credit Facility in connection with a written direction by the Credit Facility Provider to redeem the Bonds as a result of the occurrence of a Borrower Default, a Construction Lender Default or a Direction to Draw, amounts on deposit in the Freddie Mac Collateral Fund in an amount equal to difference

between (i) the Construction Phase Collateral Requirement and (ii) amounts remaining in the Project Account of the Bond Mortgage Loan Fund being transferred to the Redemption Fund to be applied to reimburse the Credit Facility Provider for the related redemption of Bonds pursuant to the Indenture, shall be released to the Credit Facility Provider.

Upon receipt by the Trustee of a Direction to Release from the Credit Facility Provider, amounts on deposit in the Freddie Mac Collateral Fund shall be released to the Construction Lender.

Investment earnings, if any, on amounts on deposit in the Freddie Mac Collateral Fund may be transferred by the Trustee to the Borrower Equity Account of the Bond Mortgage Loan Fund on the Business Day immediately prior to each Interest Payment Date so long as (A) no default by the Borrower has occurred and is continuing under any of the Borrower Documents and (B) the Trustee shall have ascertained that, after giving effect to the disbursement, the sum of (A) amounts deposited and held in the Project Accounts of the Bond Mortgage Loan Fund plus (B) amounts deposited and held in the Freddie Mac Collateral Fund (disregarding any investment earnings thereon), will not be less than the Construction Phase Collateral Requirement.

Events of Default

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 of, premium, if any, or interest on any Bond (other than Purchased Bonds or Special Purchased Bonds) when due, whether on an Interest Payment Date, at the stated maturity thereof, by proceedings for redemption thereof, by acceleration or otherwise; 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 covenants, agreements or conditions on the part of the Issuer (other than those 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 (or such longer period, if any, as is specified in the Indenture for particular defaults) after written notice thereof (which notice shall be effective only with the written consent of the Credit Facility Provider if no Event of Default described in paragraph (b) above has occurred and is then continuing) to the Issuer from the Trustee or the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding at such time specifying such default and requiring the same to be remedied; provided that if such default cannot be cured within such thirty (30) day period through the exercise of diligence and the Issuer commences the required cure within such thirty (30) day period and continues the cure with diligence and the Issuer reasonably anticipates that the default could be cured within sixty (60) days, the Issuer shall have sixty (60) days following receipt of such notice to effect the cure.

The Trustee and the Issuer agree that, notwithstanding the provisions of 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 or any other Bond Mortgage Loan Document, unless such event also constitutes an event of default under the Indenture.

The Trustee will immediately notify the Issuer, the Servicer, the Credit Facility Provider and the Construction Lender after a Responsible Officer obtains actual knowledge of the occurrence of an Event of Default or obtains actual knowledge of the occurrence of an event which would become an Event of Default with the passage of time or the giving of notice or both.

Acceleration; Other Remedies Upon Event of Default

Upon the occurrence of an Event of Default described in paragraph (b) under the heading “Events of Default” above, the Trustee shall, upon the written request of the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding and receipt of indemnity satisfactory to it, 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 interest shall continue to accrue thereon until such amounts are paid.

Upon the occurrence of an Event of Default (other than an Event of Default described in paragraph (b) under the heading “Events of Default” above), the Trustee shall, but 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 and only with the consent of the Construction Lender), 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, upon the Credit Facility Provider having honored a properly presented and conforming draw under the Credit Facility to pay such amounts, interest on the Bonds shall cease to accrue, anything contained in the Indenture or in the Bonds to the contrary notwithstanding.

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) under the heading “Events of Default” above shall be made from the Credit Facility.

If at any time after the Bonds 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, the Credit Facility Provider or the Construction Lender, 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 (including its counsel) 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 in paragraph (b) under the heading “Events of Default” above has occurred and is then continuing, by the Holders of more than 51% of the aggregate 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 written consent of the Credit Facility Provider. The right of the Construction Lender to deposit sums with the Trustee as set forth above shall not be construed to mean that the Construction Phase Credit Facility directly secures or otherwise enhances the Bonds or runs to the benefit of any party other than the Credit Facility Provider.

Upon the occurrence and during the 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 described in paragraph (b) under the heading “Events of Default” above has occurred and is continuing), 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 described in paragraph (b) under the heading “Events of Default” above has occurred and is then continuing, 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) and the Construction Lender:

(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 and to require the Issuer or the Credit Facility Provider to carry out any covenants or agreements with or for the benefit of the Bondholders and to perform its duties under the Act, the Indenture, the Financing Agreement, the Tax Regulatory Agreement or the Credit Facility (as applicable) to the extent permitted under the applicable provisions thereof;

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

(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 Tax Regulatory Agreement, the Credit Facility, the Reimbursement Agreement or any other Bond Financing Document, as applicable, or now or hereafter 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 described in paragraph (b) under the heading “Events of Default” 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 aggregate 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 or a committee of Responsible Officers, shall deem to be in the best interest of the affected Bondholders. If an Event of Default described in paragraph (b) under the heading “Events of Default” above shall have occurred and is then continuing, the Holders of more than 51% of the aggregate 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 described under the heading “Remedies of Bondholders” below, 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.

Application of Money After Default

All money (other than amounts drawn from the Credit Facility as described under the heading “Acceleration; Other Remedies Upon Event of Default” above) collected by the Trustee at any time pursuant to the provisions of the Indenture relating to Events of Default 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 and the Redemption 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 as described under the heading “Acceleration; Other Remedies Upon Event of Default” above) 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” above has occurred and is then continuing, first for the payment to the Credit Facility Provider of all amounts then due and unpaid under the Reimbursement Agreement (including with respect to Freddie Mac all Freddie Mac Credit Enhancement Fees and Freddie Mac Reimbursement Amounts) and second, prior to the Conversion Date, for the payment to the Construction Lender of all amounts then due and unpaid under the Construction Loan Agreement and the Construction Phase Credit Reimbursement Agreement.

(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” 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” above shall have occurred and so long as no Event of Default described in paragraph (b) under the heading “Events of Default” above has occurred and is then continuing, 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 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 Indenture provisions regarding Events of Default and remedies as the Trustee shall deem to be in the interest of the Bondholders and the Credit Facility Provider, the Trustee, being advised by counsel or a committee of Responsible Officers, shall exercise one or more of such rights and powers as the Trustee, being advised by counsel or a committee of Responsible Officers, 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 described in paragraph (b) under the heading “Events of Default” above has occurred and is then continuing, 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 described in paragraph (b) under the heading “Events of Default” above has occurred and is then continuing, in the case of an Event of Default described in paragraph (a) or (c) under the heading “Events of Default” 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 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.

Remedies of Bondholders

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for the appointment of a receiver or any other remedy under the Indenture, unless (a) a default shall have occurred of which the Trustee shall have been notified as provided in the Indenture; (b) such default shall have become an Event of Default described in paragraph (b) under the heading “Events of Default” above; (c) the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding with respect to which there is such an Event of Default shall have made written request to the Trustee and shall have offered reasonable opportunity to the Trustee either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its own name; (d) such Holders shall have offered to the Trustee indemnity as provided in the Indenture; and (e) the Trustee shall within 60 days thereafter fail or refuse to exercise the powers granted by the Indenture, or to institute such action, suit or proceeding; it being understood and intended that no one or more Holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture or the rights of any other Holders of Bonds or to obtain priority or preference over any other Holders or to enforce any right under the Indenture, except in the manner provided in the Indenture with respect to the equal and ratable benefit of all Holders of Bonds with respect to which there is a default. Nothing contained in the Indenture shall, however, affect or impair the

right of any Bondholder to enforce the payment of the principal of, the premium, if any, and interest on any Bond at the maturity thereof or the obligation of the Issuer to pay the principal of, premium, if any, and interest on the Bonds issued under the Indenture to the respective holders thereof, at the time, in the place, from the sources and in the manner expressed in the Indenture and in said Bonds.

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 the Construction Lender, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture in a manner not materially adverse to the Holder of any Bond to be Outstanding after the effective date of the change;
- (b) to grant to or confer upon the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted or conferred and that are not contrary to or inconsistent with the Indenture or the rights of the Trustee under the Indenture as theretofore in effect;
- (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) to make such additions, deletions or modifications as may be, in the opinion of Bond Counsel delivered to the Issuer, the Trustee and the Credit Facility Provider, necessary to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;
- (f) to modify, amend or supplement the Indenture as required by the Rating Agency to obtain or maintain a rating or ratings for the Bonds, except no change may be made that will materially adversely affect the interests of the Holders of the Bonds to be Outstanding after the effective date of the change;
- (g) to implement or modify any secondary market disclosure requirements; and
- (h) to modify, amend or supplement the Indenture in any other respect which is not materially adverse to the Holders of the Bonds to be Outstanding after the effective date of the change and which does not involve a change described under the following heading.

Supplemental Indentures Requiring Consent of Bondholders

With the prior written consent of the Credit Facility Provider and the Construction Lender, the Holders of more than 51% of the aggregate 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 such indenture or indentures supplemental thereto 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 nothing in this paragraph contained shall permit, or be construed as permitting, (a) 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 described under 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 and the Construction Lender. 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.

Thirty (30) days after the date of the mailing of such notice, the Issuer and the Trustee may enter into such supplemental indenture substantially in the form described in such notice, but only if there shall have first been or is simultaneously delivered to the Trustee the required consents, in writing, of the Credit Facility Provider, the Construction Lender and the Holders of not less than the percentage of Bonds required by the Indenture. If the Holders of not less than the percentage of Bonds required by the Indenture shall have consented to and approved the execution and delivery of a supplemental indenture as provided in the 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 Tax 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 Construction Lender, 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 and the Credit Facility Provider and the Construction Lender, 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, the Financing Agreement or the Indenture;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in the Financing Agreement in a manner not materially adverse to the Holder of any Bond to be Outstanding after the effective date of the change;
- (c) 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;
- (d) to modify, amend or supplement the Financing Agreement as required by the Rating Agency to obtain or maintain a rating or ratings for the Bonds, except no change may be made that will materially adversely affect the interests of the Holders of the Bonds to be Outstanding after the effective date of the change;
- (e) to modify, amend or supplement the Financing Agreement in any other respect which is not materially adverse to the Trustee or Holders of the Bonds to be Outstanding after the effective date of the change and which does not involve a change described under the heading "Amendments to Financing Agreement Requiring Consent of Bondholders" below.

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”, 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 Construction Lender and the Borrower and without the giving of notice and the written approval or consent of the Holders of at least 51% of the aggregate 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 without the consent of the Holders of all of the Bonds then Outstanding. 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 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, (b) to cure any formal defect, omission, inconsistency or ambiguity in the Credit Facility, (c) in a manner which is not prejudicial to the interests of the Bondholders as determined by the Trustee being advised by counsel, a committee of Responsible Officers or by a written confirmation from the Rating Agency of the then existing rating on the Bonds, or (d) as required by the Rating Agency to maintain the then current rating on the Bonds.

Opinion of Bond Counsel Required

No supplement or amendment to the Financing Agreement or the Indenture, as described in the Indenture, shall be effective until the Issuer, the Trustee and the Credit Facility Provider shall have received an opinion of Bond Counsel to the effect that such supplement or amendment is authorized or permitted by the Indenture and, upon execution and delivery thereof, will be valid and binding upon the Issuer in accordance with its terms and will not cause interest on the Bonds to be includable in gross income of the Holders thereof for federal income tax purposes. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it as conclusive evidence that (i) any proposed supplemental indenture or amendment permitted by the Indenture complies with the provisions of the Indenture, (ii) it is proper for the Trustee to join in the execution of that supplemental indenture or amendment under the provisions of the Indenture, and (iii) if applicable, such proposed supplemental indenture or amendment is not materially adverse to the interests of the Bondholders.

Trustee

The Trustee, prior to an Event of Default as defined in the Indenture and after the curing or waiver 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 or waived), shall exercise such rights and powers vested in it by the Indenture and use the same degree of care and skill in their 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 breach of trust, own negligence or willful misconduct, except that:

(a) prior to an Event of Default under the Indenture, and after the curing or waiver 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 except for willful misconduct or negligence by the officer or employee of the Trustee as the case may be; 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 aggregate 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 and as required by law, 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.

Resignation by Trustee

The Trustee may at any time resign from the trusts created under the Indenture by giving written notice to the Issuer, the Borrower, the Credit Facility Provider and the Construction Lender, 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 Credit Facility Provider and the Construction Lender, may be served personally or sent by certified mail or overnight delivery service. The Trustee's resignation shall not be effective until a successor Trustee has been appointed as provided in the Indenture and such successor Trustee shall have agreed in writing to be bound by the duties and obligations of the Trustee under the Indenture and under the Intercreditor Agreement.

Removal of Trustee

The Trustee may be removed at any time, either with or without cause, with the consent of the Credit Facility Provider (which consent of the Credit Facility Provider shall not be unreasonably withheld) and the Construction Lender (which consent of the Construction Lender shall not be reasonably withheld), by a written instrument signed by the Issuer and delivered to the Trustee and the Borrower, and if an Event of Default shall have occurred and be continuing, other than any Event of Default described in paragraph (b) under the heading "Events of Default" above, by a written instrument signed by the Credit Facility Provider and delivered to the Trustee, the Issuer, the Borrower and the Construction Lender. The Trustee may also be removed, if an Event of Default described in paragraph (b) under the heading "Events of Default" above shall have occurred and be continuing, by a written instrument or concurrent instruments signed by the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding and delivered to the Trustee, the Issuer, the Borrower, the Credit Facility Provider and the Construction Lender. The Trustee may also be removed by the Credit Facility Provider following notice to the Issuer and after a thirty (30) day period during which the Issuer may attempt to cause the Trustee to discharge its duties in a manner acceptable to Credit Facility Provider, and in each case written notice of such removal shall be given to the Servicer, the Borrower and to each registered Owner of Bonds then Outstanding as shown on the Bond Registrar. Any such removal shall take effect on the day specified in such written instrument(s), but the Trustee shall not be discharged from the trusts hereby created until a successor Trustee has been appointed and has accepted such appointment and has agreed in writing to be bound by the duties and obligations of the Trustee under the Indenture and under the Intercreditor Agreement.

Appointment of Successor Trustee

(a) In case at any time 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 shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee under the Indenture, and the Issuer, with the written consent of the Credit Facility Provider and the Construction Lender, shall promptly appoint a successor Trustee. Any such appointment shall be made by a written instrument executed by an Authorized Officer of the Issuer.

(b) If, in a proper case, no appointment of a successor Trustee shall be made pursuant to the provisions described in subparagraph (a) above within sixty (60) days following delivery of all required notices of resignation given pursuant to the Indenture or of removal of the Trustee pursuant to the Indenture, the retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Concerning Any Successor Trustee

Every successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to its predecessor and also to the Issuer a written instrument accepting such appointment under the Indenture, accepting assignment of the beneficial interest in the Bond Mortgage, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the Trust Estate and the rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, the Borrower or the Credit Facility Provider, or of its successor, and upon payment of all amounts due such predecessor, including but not limited to fees and expenses of counsel, execute and deliver such instruments as may be appropriate to transfer to such successor Trustee all the Trust Estate and the rights, powers and trusts of such predecessor under the Indenture; and every predecessor Trustee shall deliver all securities, including, but not limited to, the existing Credit Facility, and money held by it as Trustee under the Indenture to its successor. Should any instrument in writing from the Issuer be required by a successor Trustee for more fully and certainly vesting in such successor the Trust Estate and all rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture, shall be filed and/or recorded by the successor Trustee in each recording office where the Indenture shall have been filed and/or recorded. Each successor Trustee shall mail notice by first class mail, postage prepaid, at least once within 30 days of such appointment, to the Owners of all Bonds Outstanding at their addresses on the Bond Register.

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 the deposit or credit to the account of the Trustee, in trust, of money or securities in the necessary amount (as described below) to pay the principal, redemption price and interest to the date established for redemption whether by redemption or otherwise; 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, and shall have paid all fees and expenses of and any other amounts due to the Trustee, the Servicer, the Dissemination Agent, the Rebate Analyst, the Construction Lender and the 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 by 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 conveyed by the Indenture, 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, the payment of any amounts owed to the United States of America pursuant to the Indenture or the payment of any amounts payable to the Credit Facility Provider or the Construction Lender.

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 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; (c) in the case of Bonds which do not mature or will not be redeemed within 60 days of such deposit, the Trustee shall have received a verification report of a firm of certified public accountants reasonably acceptable to the Trustee as to the adequacy of the amounts so deposited to fully pay the Bonds deemed to be paid; (d) the Trustee shall have received an opinion of nationally recognized

bankruptcy counsel, if required by subpart (e) of the definition of “Eligible Funds” in the Indenture, to the effect that such money constitutes Eligible Funds; and (e) the Trustee shall have received an opinion of Bond Counsel to the effect that the defeasance of the Bonds is in accordance with the provisions of the Indenture and that such defeasance will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

The Trustee shall in no event cause the Bonds to be optionally redeemed from money deposited pursuant to the provisions of the Indenture described herein unless the requirements of the Indenture have been met with respect to such redemption, including the requirements described under the heading “THE BONDS –Optional Redemption” herein.

Construction Lender

If prior to the Conversion Date the Bonds have been defeased as described in the Indenture, and the Trustee shall receive a written statement from the Construction Lender stating that money is owed to the Construction Lender on account of the Bonds and/or the Bond Mortgage Loan, whether with respect to the Construction Loan or the Construction Phase Credit Facility, as applicable, any other Construction Loan Document or otherwise in connection with the Bonds or the Bond Mortgage Loan, the Trustee shall, upon receipt of written notification from Freddie Mac that all amounts due and owing to Freddie Mac under the Reimbursement Agreement and the Reimbursement Mortgage have been paid in full, prior to cancellation and discharge of the Indenture and prior to any reconveyance, assignment and delivery to the Borrower of the Trust Estate or any part of it, pay over, assign and deliver to the Construction Lender so much of (and not to exceed) the Trust Estate as shall be necessary to fully pay, satisfy and discharge all amounts due and owing to the Construction Lender in respect of the Bonds and the Bond Mortgage Loan, whether with respect to the Construction Loan Documents or otherwise in connection with the Bonds or the Bond Mortgage Loan, as determined by the Construction Lender, in its sole and absolute discretion.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as described under the heading “Discharge of Lien” above) to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds) provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, all liability of the Issuer in respect of such Bonds shall cease, terminate and be completely discharged, except only that thereafter the holders thereof shall be entitled to payment by the Issuer, and the Issuer shall remain liable for such payment, but only out of the money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture described in the paragraph below.

Payment of Bonds After Discharge of Indenture

Notwithstanding any provisions of the Indenture, and subject to applicable unclaimed property laws of the State, any money deposited with the Trustee or any paying agent in trust for

the payment of the principal of, interest or premium on the Bonds remaining unclaimed for two (2) years after the payment thereof, to the extent permitted by applicable law, shall be paid to the Borrower, whereupon all liability of the Issuer and the Trustee with respect to such money shall cease, and the holders of the Bonds shall thereafter look solely to the Borrower for payment of any amounts then due. All money held by the Trustee and subject to the Indenture shall be held uninvested and without liability for interest thereon.

Deposit of Money or Securities with Trustee

Whenever in the Indenture it is provided or permitted that there be deposited with or credited to the account of or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held shall be Eligible Funds (or Government Obligations purchased with Eligible Funds) consisting of:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which there shall have been furnished to the Trustee proof satisfactory to it that notice of such redemption on a specified redemption date has been duly given or provision satisfactory to the Trustee shall be made for such notice, the amount so to be deposited or held shall be the principal amount of such Bonds and interest thereon to the redemption date, together with the redemption premium, if any; or

(b) noncallable and nonprepayable direct obligations of the United States of America or noncallable and nonprepayable obligations which as to principal and interest constitute full faith and credit obligations of the United States of America, in such amounts and maturing at such times that the proceeds of said obligations received upon their respective maturities and interest payment dates, without further reinvestment, will provide funds sufficient, in the opinion of a nationally recognized firm of certified public accountants, to pay the principal, premium, if any, and interest to maturity, or to the redemption date, as the case may be, with respect to all of the Bonds to be paid or redeemed, as such principal, premium and interest become due; provided that the Trustee shall have been irrevocably instructed by the Issuer to apply the proceeds of said obligations to the payment of said principal, premium, if any, and interest with respect to such Bonds.

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; Servicing

The Bond Mortgage Loan shall (i) be evidenced by the Bond Mortgage Note; (ii) be initially secured by the Credit Facility and the Bond Mortgage; (iii) be in the principal amount equal to the principal amount of the Bonds; (iv) bear interest as provided in the Bond Mortgage Note; (v) provide for principal and interest payments in accordance with the Bond Mortgage Note; and (vi) 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 in the Bond Mortgage Note.

From and after the Conversion Date, the Servicer shall service the Bond Mortgage Loan pursuant to the Commitment and 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 the 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 Commitment and the *Guide* are each subject to amendment without the consent of the Trustee, the Issuer or the Borrower; 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*. The Servicer shall have the right to collect all payments made by the Borrower in connection with the Bond Mortgage Loan (from and after the Conversion Date) and to receive copies of all reports and notices provided for by the Bond Financing Documents.

Payments Under the Bond Mortgage Note; Independent Obligation of Borrower

(a) The Borrower agrees to repay the Bond Mortgage Loan as provided in the Bond Mortgage Note, and in all instances 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 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 shall 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 Note 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 Borrower will acknowledge and agree that the Servicer, from and after the Conversion Date, may collect monthly payments from the Borrower with respect to the Bond Mortgage Loan in accordance with the Reimbursement Agreement, but such payments shall not be credited against the principal or interest due with respect to the Bond Mortgage Loan or the Bond Mortgage Note until and only to the extent such amounts are used to reimburse the Credit Facility Provider for amounts paid under the Credit Facility to pay principal of or interest on the Bonds.

(b) The obligations of the Borrower to repay the Bond Mortgage Loan, to perform all of its obligations under the Bond Mortgage Loan Documents, to provide indemnification pursuant 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 shall, subject to the limitations set forth in the Financing Agreement, be absolute and unconditional and shall not be subject to diminution by setoff, recoupment, counterclaim, abatement or otherwise.

(c) Notwithstanding anything contained in any other provision of the Financing Agreement to the contrary (but subject to the provisions of the Indenture and the Intercreditor Agreement), the following obligations of the Borrower shall be and remain 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: (i) the Borrower's obligations to the Issuer and the Trustee for payment of fees and expenses under the Financing Agreement; (ii) the Borrower's indemnity obligations under the Financing Agreement; (iii) the Borrower's obligation to pay any and all rebate amounts that may be or become owing with respect to the Bonds and fees and expenses of the Rebate Analyst as provided in the Financing Agreement and the Tax Certificate; and (iv) the Borrower's obligation to pay legal fees and such expenses under the Financing Agreement.

Payment of Certain Fees and Expenses Under the Bond Mortgage Note

In addition to the payments set forth in the Financing Agreement, 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, the Ordinary Servicing Fees and Expenses, the Freddie Mac Credit Enhancement Fee, any annual rating maintenance fees of the Rating Agency and amounts required to be deposited in any Custodial Escrow Account pursuant to the Bond Mortgage Loan Documents, as set forth in the Financing Agreement. To the extent that any portion of the Bond Fee Component, the Ordinary Servicing Fees and Expenses, the Freddie Mac Credit Enhancement Fee, any annual rating maintenance fees of the Rating Agency and amounts required to be deposited in a Custodial Escrow Account remain due and owing at any time, such amounts remaining due and owing shall be payable from money on deposit in the Administration Fund as described under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Administration Fund" and 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 shall 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 in accordance with the provisions of the Indenture, the Financing Agreement and the Bond Mortgage Note, and only with the prior written consent of the Credit Facility Provider and the payment of any amount due as described in the next succeeding paragraph. The Borrower will be required to prepay the Bond Mortgage Loan in each case that Bonds are required to be redeemed in accordance with the terms and conditions set forth in 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), such premium to be paid with Eligible Funds not consisting of funds drawn under the Credit Facility, 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, the Indenture and the Reimbursement Agreement. The Borrower shall provide notice of the prepayment to the Issuer, the Trustee, the Credit Facility Provider, the Servicer and the Construction Lender in writing forty-five (45) days, or such shorter time as is possible in the case of mandatory prepayments, prior to the date on which the Borrower will make the prepayment. Each such notice shall state, to the extent such information is available, (a) the amount to be prepaid, (b) the date on which the prepayment will be made by the Borrower, and (c) the cause for the prepayment, if any.

Borrower's Obligations Upon Redemption

In the event of any redemption, the Borrower will 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, such premium to be paid with Eligible Funds not consisting of funds drawn under the Credit Facility. In addition, the Borrower will timely pay all fees, costs and expenses associated with any redemption of Bonds.

Credit Facility Reimbursement Fund

Under the Reimbursement Agreement, the Borrower may be required to make monthly interest payments and principal deposits to the Servicer for remittance to the Trustee for deposit into the Credit Facility Reimbursement Fund. Amounts on deposit in the Credit Facility Reimbursement Fund shall be held solely for the benefit of the Credit Facility Provider and shall be applied as provided in the Indenture.

Amounts on deposit in the Credit Facility Reimbursement 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 Credit Facility Reimbursement Fund and used to reimburse the Credit Facility Provider for amounts paid under the Credit Facility to redeem or otherwise pay principal of or interest on the Bonds.

Alternate Credit Facility

The Borrower, with the prior written confirmation of the Credit Facility Provider that the provisions of the Reimbursement Agreement have been satisfied (but without the consent of the Issuer, the Trustee or the Bondholders), may, on any Interest Payment Date occurring on or after the date that 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, arrange for the delivery to the

Trustee of an Alternate Credit Facility in substitution for the Credit Facility then in effect (referred to under this heading as “credit support”); provided that, without the consent of the Borrower (and without the consent of the Issuer, the Trustee or the Bondholders), the Credit Facility Provider may provide any other form of “credit support” issued by the Credit Facility Provider in substitution for then existing Credit Facility if (A) the conditions in the Indenture are satisfied or (B)(i) the Rating Agency confirms in writing that such substitution will not adversely affect the current rating on the Bonds, (ii) the Credit Facility Provider delivers to the Issuer and the Trustee an opinion of counsel satisfying the requirements of the Financing Agreement described in paragraph (b) under this heading and (iii) such substitute “credit support” 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) The Alternate Credit Facility shall (i) be in an amount equal to the aggregate principal amount of the Bonds Outstanding from time to time plus the Interest Requirement (or otherwise provide coverage satisfactory to the Rating Agency); (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 or mandatory redemption date pursuant to the Indenture; (iii) be accompanied by a written confirmation from the Rating Agency to the Issuer and the Trustee of the then existing rating on the Bonds; and (iv) have a stated expiration or termination date not sooner than one year following its effective date.

(b) 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 made relating to the Alternate Credit Facility and Reimbursement Agreement contained in any disclosure document or supplement to the existing disclosure document related 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 managing member of the Borrower or by the Issuer under the Bankruptcy Code; and (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.

Events of Default

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

(a) Any representation or warranty made by the Borrower in the Bond Financing 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 and the Bond Mortgage, as applicable;

(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 described in subparagraph (a) above, for a period of thirty (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 a 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 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 shall in the discretion of the Credit Facility Provider constitute a default under the Bond Mortgage Loan Documents and the Reimbursement Agreement.

Nothing 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 Credit Facility Provider, the Servicer or the Construction Lender to any notice and cure periods other than as expressly set forth in the Bond Financing Documents.

Remedies on Default

Subject to the Financing Agreement and provisions of the Intercreditor Agreement, whenever any Event of Default under the Financing Agreement shall have occurred and be continuing, the Trustee or the Issuer where so provided may take any one or more of the following remedial steps:

(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 or the Trustee may, without being required to give any notice (other than to the Issuer or the Trustee, as applicable), 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 which 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 described under this heading are subject to the further limitation that if, after any Event of Default under the Financing Agreement 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 then due to the Credit Facility Provider, including, but not limited to, any Freddie Mac Reimbursement Amounts and Freddie Mac Credit Enhancement Fees, 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.

SUMMARY OF CERTAIN PROVISIONS OF THE INTERCREDITOR AGREEMENT

The Issuer, the Trustee, Freddie Mac and the Construction Lender will agree upon their respective rights arising from an Event of Default under the Bond Financing Documents in the Intercreditor Agreement. The following is a brief 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.

Under the terms of the Intercreditor Agreement, the Issuer, the Trustee, Freddie Mac and the Construction Lender will agree, among other things, that, until either (a) Freddie Mac fails to honor a draw properly presented in accordance with the terms of the Credit Enhancement Agreement (a "Wrongful Dishonor") or (b) the Credit Enhancement Agreement terminates in accordance with its terms and all of the Borrower's obligations to Freddie Mac under the Reimbursement Agreement shall have been paid in full, certain of the rights and remedies of the Issuer, the Trustee and Freddie Mac under the Bond Financing Documents, including (without limitation) the rights and remedies of the Trustee as beneficiary under the Bond Mortgage, may (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) be exercised only with the consent or at the direction of Freddie Mac, in its sole discretion, including (without limitation) the right to waive certain terms and conditions of the Bond Financing Documents pertaining to the Borrower.

Notwithstanding anything to the contrary contained in the Financing Agreement and pursuant to the Intercreditor Agreement, as long as Freddie Mac is not in default of its obligations under the Credit Enhancement Agreement, neither the Issuer, the Trustee nor any other person, upon the occurrence of an event of default under any Bond Financing Document, is to take any action to accelerate or otherwise enforce payment or seek other remedies with respect

to the Bond Financing Documents, except at the direction of Freddie Mac; provided that such prohibition will not be construed to limit the rights of the Issuer or the Trustee to specifically enforce the Tax Regulatory Agreement in order to provide for operation of the Project in accordance with the Code and the Act or to enforce other Unassigned Rights or reserved rights of the Trustee; and provided further that such prohibition will not be construed to limit the indemnification rights of the Issuer, the Trustee, the Servicer, Freddie Mac, the Construction Lender or any other indemnified party to enforce its rights against the Borrower under the Financing Agreement, Reimbursement Agreement or the Credit Agreement 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 Loan.

Provided the Construction Lender is not in default under the Construction Loan, it shall have certain consent rights as provided in the Intercreditor Agreement. Additionally, pursuant to the Construction Phase Financing Agreement, Freddie Mac and the Construction Lender agree to certain conditions to exercising remedies pursuant to the Reimbursement Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE TAX REGULATORY AGREEMENT

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

Definitions

“*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.

“*Administrator*” means the Issuer or any administrator or program monitor appointed by the Issuer to administer the Tax Regulatory Agreement, and any successor so appointed.

“*Affordability Restriction*” means the Affordability Restriction(s) made by the Owner in connection with a separate, subordinate loan from the Issuer, as amended, and as the same may be further supplemented or amended from time to time.

“*Annual City Fee*” has the meaning given such term in paragraph (a) under the heading “Additional Requirements of the Issuer” below.

“*Area*” means the San José Primary Metropolitan Statistical Area.

“*CDLAC*” means the California Debt Limit Allocation Committee or its successors.

“*CDLAC Conditions*” has the meaning given such term in paragraph (i) under the heading “Additional Requirements of the Issuer” below.

“*CDLAC Resoltuion*” means CDLAC Resolution No. 11-___, adopted on July 20, 2011.

“*Certificate of Continuing Program Compliance*” means the Certificate to be filed by the Borrower with the Issuer, the Administrator (if other than the Issuer) and the Trustee as described in paragraph (f) under the heading “Low Income Tenants; Reporting Requirements” below, which shall be

substantially in the form attached as an exhibit to the Tax Regulatory Agreement or in such other comparable form as may be provided by the Issuer to the Borrower.

“*Delivery Date*” means the date the Bonds are issued and delivered to the initial purchaser thereof, which is expected to be September __, 2011.

“*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.

“*Income Certification*” means a Verification of Income and an Occupancy Certificate in the form attached as an exhibit to the Tax Regulatory Agreement or in such other comparable form as may be provided by the Issuer to the Borrower.

“*Qualified Project Period*” means the period beginning on the Delivery Date, and ending on the later of the following:

(A) the date which is fifteen (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 Tax Regulatory Agreement, the Qualified Project Period for purposes of the Tax Regulatory Agreement shall be 55 years from the Delivery Date, as required by the CDLAC Conditions.

provided, further, that if at least 10% of the units are available units at all times within 60 days after the later of (1) the date the Project is acquired by Owners, or (2) the Delivery Date, then the Qualified Project Period shall begin on the date that is 12 months after the Delivery Date.

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

“*Tax-Exempt*” means with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes; provided, however, that such interest may be includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax under the Code.

“*Verification of Income*” means a Verification of Income in the form attached as an exhibit to the Tax Regulatory Agreement or in such other comparable form as may be provided by the Issuer to the Borrower.

“*Very Low Income Tenant*” means any tenant (i) whose Adjusted Income does not exceed 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 fifty percent (50%) of median gross income for the Area, with adjustments for family size,

and (ii) whose income does not exceed the qualifying limits for low income families as established and amended from time to time pursuant to Section 8 of the Housing Act. 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 Very Low Income Tenants. The determination of a tenant's status as a Very Low Income Tenant shall be made by the Owner upon initial occupancy of a unit in the Project by such tenant, on the basis of an Income Certification executed by the tenant, and annually thereafter.

“*Very Low Income Units*” means the units in the Project required to be rented, or held available for occupancy, by Very Low Income Tenants as described in paragraph (a) under the heading “Low Income Tenants; Reporting Requirements” below and as described in paragraph (a) under the heading “Additional Requirements of the Act” below.

Qualified Residential Rental Project

The Borrower has acknowledged and agreed 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 Tax Regulatory Agreement, the Borrower has represented, covenanted, warranted and agreed as follows:

(a) The Project will be acquired, rehabilitated and operated for the purpose of providing multifamily residential rental property. The Borrower will own, manage 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.

(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 not more than three units 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 Very Low Income Tenants under the Tax 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 three dwelling units by a resident managers or maintenance personnel any of whom may be the Borrower.

Very Low Income Tenants; Reporting Requirements

Pursuant to the requirements of the Code, the Borrower has represented, warranted and covenanted as follows:

(a) During the Qualified Project Period, no less than 20% of the total number of completed units in the Project shall at all times be rented to and occupied by Very Low Income Tenants. For the purposes of this paragraph (a), a vacant unit that was most recently occupied by a Very Low Income Tenant is treated as rented and occupied by a Very 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 Very 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 Very Low Income Tenants. However, should a Very Low Income Tenant's Adjusted Income, as of the most recent determination thereof, exceed 140% of the applicable income limit for a Very Low Income Tenant of the same family size, such Very Low Income Tenant who has ceased to qualify shall be deemed to continue to be a Very Low Income Tenant for purposes of the occupancy requirement as described in paragraph (a) under the heading "Low Income Tenants; Reporting Requirements" below until a new Very Low Income Tenant occupies the unit as required by the Tax Regulatory Agreement.

(c) For the Qualified Project Period, the Borrower will obtain, complete and maintain on file Income Certifications for each Very Low Income Tenant, including (i) an Income Certification dated immediately prior to the initial occupancy of such Very Low Income Tenant in the Project, and (ii) thereafter, an annual Income Certification with respect to each Very Low Income Tenant. The Borrower will provide such additional information as may be required in the future by the Code, the State or the Issuer, as the same may be amended from time to time, or in such other form and manner as may be required by applicable rules, rulings, policies, procedures, Regulations or other official statements promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service with respect to Tax-Exempt obligations. A copy of the most recent Income Certifications for Very Low Income Tenants commencing or continuing occupation of a Very Low Income Unit shall be attached to each report to be filed with the Issuer as described in paragraph (f) below.

(d) The Borrower shall make a good faith effort to verify that the income information provided by an applicant in a Verification of Income is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a pay stub for the most recent pay period, (2) obtain an income tax return for the most recent tax year, (3) obtain a credit report or conduct a similar type credit search, (4) obtain an income verification from the

applicant's current employer, (5) obtain an income verification from the Social Security Administration and/or the California Department of Social Services if the applicant receives assistance from either of such agencies, or (6) if the applicant is unemployed and does not have an income tax return, obtain another form of independent verification reasonably acceptable to the Issuer.

(e) The Borrower will maintain complete and accurate records pertaining to the Very 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 Very Low Income Units.

(f) The Borrower will prepare and submit to the Issuer, the Administrator (if other than 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. On or before each March 1 during the Qualified Project Period, the Borrower will submit to the Issuer a draft of the completed Internal Revenue Code Form 8703 or such other annual certification as required by the Code with respect to the Project, which form shall be submitted to the Secretary of the Treasury on or before March 31 of each year (or such other date as may be required by the Code).

(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 Administrator 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 Administrator 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 Tax Regulatory Agreement and the Bond Mortgage. All leases pertaining to Very Low Income Units shall contain clauses, among others, wherein each tenant who occupies a Very Low Income Unit: (i) certifies the accuracy of the statements made in the Verification of Income; (ii) agrees that the family income and other eligibility requirements shall be deemed substantial and material obligations of the tenancy of such tenant, that such tenant will comply promptly with all requests for information with respect thereto from the Borrower, the Trustee, the Issuer or the Administrator on behalf of the Issuer, and that the failure to provide accurate information in the Verification of Income or refusal to comply with a request for information with respect thereto shall be deemed a violation of a substantial obligation of the tenancy of such tenant; (iii) acknowledges that the Borrower has relied on the Verification of Income and supporting information supplied by the Very Low Income Tenant in determining qualification for occupancy of the Very Low Income Unit, and that any material misstatement in such certification (whether or not intentional) will be cause for immediate termination of such lease or rental agreement; and (iv) agrees that the tenant's income is subject to annual certification in accordance with paragraph (c) above and that if upon any such certification such tenant's Adjusted Income exceeds the applicable income limit under paragraph (b) above, such tenant may cease to qualify as a Very Low Income Tenant and such tenant may be evicted.

Additional Requirements of the Act

The Borrower has agreed 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 20% of the total number of units in the Project shall be available for occupancy on a priority basis to Very 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 the Very 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 50% 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 units reserved for occupancy as required by paragraph (a) above shall remain available on a priority basis for occupancy at all times during the Qualified Project Period.

(e) During the three years prior to the expiration of the Qualified Project Period, the Borrower shall continue to make available to eligible households Very 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 paragraph (a) above shall remain available to any eligible tenant occupying a reserved unit at the date of such expiration or termination, at the rent determined by paragraph (b) 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 households 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 has agreed to comply with each of the requirements of the Issuer described under this heading, as follows:

(a) The Owner shall pay or cause to be paid to the Issuer on the Delivery Date, the "Initial City Fee" in an amount equal to \$[35,000], representing 0.5% of the original aggregate principal amount of the Bonds; 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 \$[8,750], representing 0.125% of the original maximum aggregate principal amount of the Bonds. The

Annual City Fee shall be payable in equal semiannual installments, in advance, on each April 1 and October 1, commencing on April 1, 2012. 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. In the event that the principal of and the interest on the Bonds are paid in full and the Indenture is discharged prior to the termination of the Tax Regulatory Agreement (other than by reason of the issuance of refunding bonds), the Borrower shall pay to the Issuer, if so requested by the Issuer, an amount equal to the remaining Annual City Fees, at a present value to the date of payment (using a discount rate equal to the true interest cost of the Bonds). Such payment shall be due to the Issuer at such time as the Bonds are paid in full and the Indenture is discharged.

(b) All tenant 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.

(c) The Borrower shall submit to the Issuer, within fifteen 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, 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 has acknowledged that the Issuer may appoint an Administrator other than the Issuer to administer the Tax Regulatory Agreement and to monitor performance by the Borrower of the terms, provisions and requirements of the Tax Regulatory Agreement. 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 Tax Regulatory Agreement, and to 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) 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 development located within 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 Very Low Income Tenant's Adjusted Income, as of the most recent determination thereof, exceeds 140% of the applicable income limit for a Very Low Income Tenant of the same family size, such Very Low Income Tenant shall, to the extent permitted by law, be evicted and the available unit shall within a reasonable time be rented to (or held vacant and available for immediate occupancy by) a Very Low Income Tenant.

(h) Each of the requirements described under the headings "Qualified Residential Rental Project," "Low Income Tenants; Reporting Requirements" and "Additional Requirements of the Act" above is incorporated as a specific requirement of the Issuer, whether or not required by California or federal law, and shall be in force for the term of the Tax Regulatory Agreement.

(i) In addition, the Borrower shall comply with the conditions set forth in the CDLAC Resolution (the "CDLAC Conditions"), as they may be modified or amended from time to time, which conditions are incorporated in the Tax Regulatory Agreement by reference and made a part of the Tax Regulatory Agreement. The Borrower will prepare and submit to CDLAC, not later than each anniversary of the Delivery 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.

(j) The Owner will comply with restrictions set forth the Affordability Restriction between the Owner and the Issuer.

(k) The Owner will pay the Issuer all of the amounts required by the Financing Agreement, and will indemnify the Issuer and the Trustee as provided in the Financing Agreement.

(l) The requirements described under this heading shall be in effect for the term of the Tax Regulatory Agreement; provided that any of the foregoing requirements of the Issuer may be expressly waived by the Issuer, in its sole discretion (except the provisions described in subparagraph (i) above, which may be expressly waived by CDLAC), in writing, but (i) no waiver by the Issuer of any requirement described under this heading shall, or shall be deemed to, extend to or affect any other provision of the Tax Regulatory Agreement except to the extent the Issuer has received an opinion of Bond Counsel that any such other provision is not required by the Act and may be waived without adversely affecting the exclusion from gross income of interest on the Bonds for federal income tax purposes; and (ii) any requirement of described under this heading shall be void and of no force and effect if the Issuer and the Borrower receive a written opinion of Bond Counsel to the effect that compliance with any such requirement would cause interest on the Bonds to cease to be Tax-Exempt or to the effect that compliance with such requirement would be in conflict with the Act or any other state or federal law.

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 Tax 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 Tax 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 Very 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 Tax Regulatory Agreement and, if the Bonds are outstanding at the time of transfer, the Financing Agreement, including without limitation an instrument of assumption of the Tax Regulatory Agreement and 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 Tax 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.

The written consent of the Issuer to any transfer of the Project shall constitute conclusive evidence that the transfer is not in violation of the provisions of the Tax Regulatory Agreement described under this heading. Upon any sale or other transfer that complies with the Tax Regulatory Agreement, the Borrower shall be fully released from its obligations under the Tax Regulatory Agreement to the extent such obligations have been fully assumed in writing by the transferee of the Project. Except as otherwise provided in the Tax Regulatory Agreement, any transfer of the Project to any entity, whether or not affiliated with the Borrower, shall be subject to the provisions of the Tax Regulatory Agreement described under this heading, except as described immediately below.

Restrictions on sale or transfer of the Project or of any interest in the Borrower, consents of the Issuer or the Trustee, transfer 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 the Credit Facility Provider 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 the Credit Facility Provider following foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Bond Mortgage Loan. Nothing contained in the Tax 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 the Credit Facility Provider 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 Tax Regulatory Agreement shall apply to a transfer to the Credit Facility Provider upon foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Bond Mortgage Loan by the Credit Facility Provider, or to any subsequent transfer by the Credit Facility Provider 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 shall constitute conclusive evidence that the sale or transfer is not a violation of the transfer provisions of the Tax Regulatory Agreement.

For the Qualified Project Period, the Borrower shall not: (1) encumber any of the Project or grant commercial leases of any part thereof, or permit the conveyance, transfer or encumbrance of any part of the Project, except pursuant or subordinate to the provisions of the Tax Regulatory Agreement and the Bond Mortgage, and upon receipt by the Borrower of an opinion of Bond Counsel to the effect that such action will not adversely affect the Tax-Exempt status of interest on the Bonds, or except upon a sale, transfer or other disposition of the Project in accordance with the terms of the Tax Regulatory Agreement; (2) demolish any part of the Project or substantially subtract from any real or personal property of the Project, except to the extent that what is removed is replaced with comparable property; or (3) permit the use of the dwelling accommodations of the Project for any purpose except rental residences.

Term

The Tax Regulatory Agreement and all and several of the terms of the Tax Regulatory Agreement shall become effective upon its execution and delivery, and shall remain in full force and effect for the period provided in the Tax Regulatory Agreement 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 of the Tax Regulatory Agreement are intended to survive the retirement of the Bonds and discharge of the Indenture and the Financing Agreement.

Notwithstanding the terms of the Tax Regulatory Agreement to the contrary, the requirements of the Tax Regulatory Agreement shall terminate and be of no further force and effect (i) in the event of involuntary noncompliance with the provisions of the Tax Regulatory Agreement caused by fire, seizure, requisition, change in a federal law or an action of a federal agency after the Delivery 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), 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 of the Tax Regulatory Agreement; provided, however, that the preceding provisions of this sentence shall cease to apply and the restrictions contained in the Tax Regulatory Agreement shall be reinstated if, at any time subsequent to the termination of such provisions as the result of the foreclosure or the delivery of a deed in lieu of foreclosure 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 has agreed that, following any foreclosure, transfer of title by deed in lieu of foreclosure 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 Tax Regulatory Agreement, the Tax 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. Upon the termination of the terms of the Tax Regulatory Agreement, the parties to the Tax Regulatory Agreement have agreed to execute, deliver and record appropriate instruments of release and discharge of the terms of the Tax Regulatory Agreement; provided, however, that the execution and delivery of such instruments shall not be necessary or a prerequisite to the termination of the Tax Regulatory Agreement in accordance with its terms.

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 Tax 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 (as directed by the Issuer, subject to the provisions of the Indenture) acting on its own behalf or on behalf of the Issuer, shall declare an “Event of Default” to have occurred under the Tax 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 under the Tax Regulatory Agreement 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, 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 Tax Regulatory Agreement within shorter periods of time than are otherwise provided in the Tax Regulatory Agreement if necessary to insure compliance with the Act or the Code.

Notwithstanding anything to the contrary contained in the Tax Regulatory Agreement, the Issuer and the Trustee agree that any cure of any default made or tendered by one or more of Borrower’s limited partners shall be accepted or rejected on the same basis as if made or tendered by Borrower.

(b) Following the declaration of an Event of Default under the Tax Regulatory Agreement, the Issuer or the Trustee, at the direction of the Issuer, subject to the provisions of the Indenture and 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 Tax Regulatory Agreement or enjoin any acts or things that may be unlawful or in violation of the rights of the Issuer or the Trustee under the Tax Regulatory Agreement;

(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) with the prior written consent of the Credit Facility Provider, 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 Tax 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 Tax Regulatory Agreement.

The Borrower has agreed that specific enforcement of the Borrower’s agreements contained in the Tax Regulatory Agreement is the only means by which the Issuer may fully obtain the benefits of such agreements made by the Borrower in the Tax Regulatory Agreement, 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 under the Tax Regulatory Agreement.

(c) The Trustee shall have the right, in accordance with the provisions of the Tax Regulatory Agreement described under this heading 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 under the Tax

Regulatory Agreement; provided that prior to taking any such action, that Trustee shall give the Issuer and the Credit Facility Provider 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 in the Tax Regulatory Agreement 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 under the Tax Regulatory Agreement unless the Trustee shall have been specifically notified in writing of such default by the Issuer, the Administrator, the Credit Facility Provider or by the Borrowers of at least 25% of the Bonds outstanding.

(d) All reasonable fees, costs and expenses of the Trustee and the Issuer incurred in taking any action pursuant to the provisions of the Tax Regulatory Agreement described under this heading shall be the sole responsibility of the Borrower.

(e) No breach or default under the Tax 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.

(f) Promptly upon determining that a violation of the Tax Regulatory Agreement has occurred, the Issuer or the Trustee shall, by written notice, inform the Credit Facility Provider that such violation has occurred, the nature of the violation and that the violation has been cured or has not been cured, but is curable within a reasonable period of time, or is incurable.

(g) Notwithstanding anything contained in the Tax Regulatory Agreement to the contrary:

(i) The occurrence of an event of default under the Tax Regulatory Agreement shall not (a) impair, defeat or render invalid the lien of the Bond Mortgage or (b) under any circumstances whatsoever, be or be deemed to be 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 Tax 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 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

(h) No person other than the Servicer or the Credit Facility Provider 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. The Issuer and the Trustee acknowledge the foregoing limitations in the Tax Regulatory Agreement.

The foregoing prohibitions and limitations are not intended to limit the rights of the Issuer or the Trustee to specifically enforce the Tax Regulatory Agreement or to seek injunctive relief in order to provide for the operation of the Project in accordance with the requirements of the Code and State law. Accordingly, upon any default by the Borrower, the Issuer or the Trustee may seek specific performance of the Tax Regulatory Agreement or enjoin acts which may be in violation of the Tax 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 Tax 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 Tax 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 Tax Regulatory Agreement 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.

Amendments

Except as provided in the Tax Regulatory Agreement, the Tax Regulatory Agreement may be amended only by a written instrument executed by the parties to the Tax Regulatory Agreement 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 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 in the Tax Regulatory Agreement to the contrary notwithstanding, the Issuer, the Trustee and the Borrower have agreed to amend the Tax Regulatory Agreement to the extent required, in the opinion of Bond Counsel, in order that interest on the Bonds remain Tax-Exempt. The parties requesting such amendment shall notify the other parties to the Tax Regulatory Agreement of the proposed amendment, with a copy of such requested amendment to Bond Counsel and a request that Bond Counsel render to the Issuer an opinion as to the effect of such proposed amendment upon the Tax-Exempt status of interest on the Bonds. This provision shall not be subject to any provision of any other agreement requiring any party to the Tax Regulatory Agreement to obtain the consent of any other person in order to amend the Tax Regulatory Agreement.

The Issuer shall not consent to any amendment, supplement to, or restatement of the Tax Regulatory Agreement without the prior written consent of the Credit Facility Provider.

Third-Party Beneficiary

CDLAC is intended to be and shall be a third-party beneficiary of the Tax Regulatory Agreement. CDLAC shall have the right (but not the obligation) to enforce the CDLAC Conditions and to pursue an action for specific performance or other available remedy at law or in equity in accordance with the provisions of the Tax Regulatory Agreement described under the heading "Default; Enforcement" above; provided that any such action or remedy undertaken by CDLAC shall not materially adversely affect the interests and rights of the Issuer or the Bondholders.

The parties to the Tax Regulatory Agreement have recognized and agreed that the terms of the Tax Regulatory Agreement and the enforcement of such terms are essential to the security of the Credit Facility Provider and are entered into for the benefit of various parties, including the Credit Facility Provider. The Credit Facility Provider shall accordingly have contractual rights in the Tax Regulatory Agreement and shall be entitled (but not obligated) to enforce, separately or jointly with the Issuer and/or

the Trustee, or to cause the Issuer or the Trustee to enforce, the terms of the Tax Regulatory Agreement. In addition, the Borrower and the Issuer intend that the Credit Facility Provider shall be a third-party beneficiary of the Tax Regulatory Agreement.

Freddie Mac Rider

A Freddie Mac Rider (the “Rider”) is attached to and forms a part of the Tax Regulatory Agreement. The provisions of the Rider amend and supplement the provisions of, and in the event of a conflict shall supersede the conflicting provisions of, the Tax Regulatory Agreement.

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 Tax Regulatory Agreement. Nothing contained in the Tax 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 Tax 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 Tax Regulatory Agreement or the Indenture to the contrary:

(i) the occurrence of an event of default under the Tax 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) none of the Issuer, CDLAC or the Trustee may, upon the occurrence of an event of default under the Tax 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 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 the Tax 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 have acknowledged 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 Tax 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, the Issuer or the Trustee may seek specific performance of the Tax Regulatory Agreement or enjoin acts which may be in violation of the Tax 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 Tax 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 Tax 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 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 owner under the Tax Regulatory Agreement shall be personal to the person who was the owner at the time that an event, including, without limitation, any default or breach of the Tax 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 owner of the Project. Accordingly, no subsequent owner of the Project shall be liable or obligated for the obligation of any prior owner (including the Borrower), including, but not limited to, any obligation for payment, indemnification or damages, for default or breach of the Tax Regulatory Agreement or otherwise. The owner of the Project at the time the obligation was incurred, including any obligation arising out of a default or breach of the Tax Regulatory Agreement, shall remain liable for any and all payments and damages occasioned by the owner even after such person ceases to be the owner of the Project, and no person seeking such payments or damages shall have recourse against the Project.

Under no circumstances shall the Issuer, CDLAC 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.

Notice of Violations. Promptly upon determining that a violation of the Tax Regulatory Agreement has occurred, the Issuer or the Trustee shall, by notice in writing to the Borrower, the Servicer and Freddie Mac, inform the Borrower, the Servicer and Freddie Mac that such violation has occurred, the nature of the violation and that the violation has been cured or has not been cured, but is curable within a reasonable period of time, or is incurable; notwithstanding the occurrence of such violation, neither the Issuer nor the Trustee shall have, and each of them acknowledge that they shall not have, any right to cause or direct acceleration of the Bond Mortgage Loan, to enforce the Bond Mortgage Note or to foreclose on the Bond Mortgage.

Amendments. The Tax Regulatory Agreement shall not be amended without the prior written consent of Freddie Mac.

Fees; Penalties. Freddie Mac shall not be liable for the payment of any compensation or any accrued unpaid fees, costs, expenses or penalties otherwise owed by the Borrower or any subsequent owner of the Project prior to the date of acquisition of the Project by Freddie Mac, whether such acquisition is by foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Bond Mortgage Loan.

Subordination. The terms, covenants and restrictions of the Tax Regulatory Agreement, other than those described under the headings “Qualified Residential Rental Project,” “Very Low Income Tenants; Reporting Requirements,” “Additional Requirements of the Act,” and “Additional Requirements of the Issuer” above, are and shall at all times remain subject and subordinate, in all respects, to the liens, rights and interests created under the Bond Mortgage Loan Documents.

Third-Party Beneficiary. The parties to the Tax Regulatory Agreement have recognized and agree that the terms of the Tax Regulatory Agreement and the enforcement of those terms are essential to the security of Freddie Mac and are entered into for the benefit of various parties, including Freddie Mac. Freddie Mac shall accordingly have contractual rights in the Tax Regulatory Agreement and shall be entitled (but not obligated) to enforce, separately or jointly with the Issuer and/or the Trustee, or to cause the Issuer or the Trustee to enforce, the terms of the Tax Regulatory Agreement. In addition, Freddie Mac is intended to be and shall be a third-party beneficiary of the Tax Regulatory Agreement.

CONTINUING DISCLOSURE

The Issuer has not made and will not make any provision to provide any annual financial statements or other credit information of the Borrower to investors on a periodic basis.

The Borrower has determined that no financial or operating data concerning the Borrower is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Borrower will not provide any such information. The Borrower has undertaken all responsibilities for any continuing disclosure to the Beneficial Owners and

Holders of any of the Bonds as described below, and the Borrower shall have no liability to the Beneficial Owners or Holders of any of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”).

The Borrower and the Trustee, as dissemination agent (the “Dissemination Agent”) have entered into a Continuing Disclosure Agreement, dated as of the date of the Indenture (the “Continuing Disclosure Agreement”). The Continuing Disclosure Agreement obligates the Borrower to send, or cause to be sent, certain financial information with respect to the Project to the Municipal Securities Rulemaking Board and to provide notice, or cause notice to be provided, to the Municipal Securities Rulemaking Board upon the occurrence of certain enumerated events for the benefit of the Beneficial Owners and Holders of any of the Bonds. The form of the Continuing Disclosure Agreement is attached as Appendix D hereto. The Borrower has not entered into any other such undertaking with respect to the Rule.

A failure by the Borrower to comply with the provisions of the Continuing Disclosure Agreement will not constitute a default under the Indenture or the Financing Agreement (although Bondholders will have any available remedy at law or in equity). Nevertheless, such a failure to comply must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, except during any period while a Bond is held by a “substantial user” of the facilities financed by the Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

The opinion of Bond Counsel is subject to the condition that the Issuer and the Borrower comply with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. The Issuer and the Borrower have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

The form of opinion of Bond Counsel is set forth as Appendix C hereto.

Original Issue Discount and Premium

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

Other Tax Matters

Bond Counsel expresses no opinion regarding any tax consequences arising with respect to the Bonds other than as expressly described above. Owners of the Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above for certain taxpayers, including without limitation, foreign corporations subject to the branch profits tax, financial institutions, property and casualty insurance companies, S corporations and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations. Prospective investors, particularly those who may be subject to special rules, should consult their own tax advisors regarding the tax consequences of owning the Bonds.

UNDERWRITING

The Bonds are being purchased by Citigroup Global Markets Inc. (the “Underwriter”) at a price of ___% of the principal amount thereof. As consideration for its underwriting of the Bonds, the Underwriter will be paid an aggregate fee equal to \$_____*, from which the Underwriter will pay certain fees and expenses.

The Underwriter has committed to purchase all of the Bonds if any of such Bonds are purchased and to use their best efforts to sell the Bonds. The Bonds are being offered for sale at the price set forth on the cover page of this Official Statement, which price may be lowered by the Underwriter from time to time without notice. The Bonds may be offered and sold to dealers, including the Underwriter and dealers acquiring Bonds for their own account or any account managed by them, at prices lower than the public offering prices.

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

Citigroup Inc., parent company of Citigroup Global Markets Inc., the underwriter of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

MULTIPLE ROLES OF PARTIES

Citibank, N.A., an affiliate of the Underwriter, is serving as Construction Lender with respect to the Construction Loan being made on the Project and as Servicer with respect to the Bond Mortgage Loan following conversion and is being separately compensated. Conflicts of interest could arise by reason of the different capacities in which Citigroup Global Markets Inc. and its affiliates act in connection with the Bonds and the Bond Mortgage Loan.

RATING

It is a condition to the issuance of the Bonds, that Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (the “Rating Agency”) will have assigned to the Bonds the rating set forth on the cover hereof and that such rating shall not have been suspended, reduced or withdrawn. The rating reflects only the views of the rating agency, and an explanation of the significance of such rating 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 rating may not be revised downward, suspended or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in, suspension or withdrawal of the rating 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 rating or to oppose any such revision, suspension or withdrawal.

* Preliminary; subject to change.

RECENT ECONOMIC DEVELOPMENTS

Reacting to the prospect that the U.S. government might default on its obligations if the federal debt ceiling was not raised by the early August, 2011 deadline, the major rating agencies indicated that they were reviewing for a possible downgrade the sovereign credit ratings of the United States of America and U.S. government institutions (which has impacted the ratings of the Freddie Mac as described under the heading "RATING" above). See, for example, "United States of America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate," published July 15, 2011, on RatingsDirect on S&P's Global Credit Portal. Despite a timely agreement to raise the federal debt ceiling, and based on the United States of America's high ratio of net general government debt to gross domestic product and a political environment in which officials are unable to proactively put the finances of the United States of America on a stable path, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has lowered the sovereign credit ratings of the United States of America to "AA+/A-1+" with negative outlook. At the same time, S&P removed the sovereign credit ratings of the United States of America from CreditWatch.

S&P may downgrade the sovereign credit ratings of the United States of America further and may also downgrade the credit ratings of other U.S. government institutions. Other major rating agencies may proceed to downgrade the sovereign credit ratings of the United States of America and U.S. government institutions. It is difficult to predict or quantify the long-term ratings impact on the Bonds arising from these events.

The purchase of the Bonds involves a degree of risk. A prospective purchaser should review this entire Official Statement, including but not limited to the information under the heading "BONDHOLDERS' RISKS," and the appendices hereto, to identify risk factors and make an informed investment decision.

CERTAIN LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to an approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Issuer by its counsel Jones Hall, A Professional Law Corporation, San Francisco, California, for Freddie Mac by its Legal Division and by its counsel, Kantor Taylor Nelson Boyd & Evatt PC, Seattle, Washington, for the Borrower by its counsel, Cox, Castle & Nicholson, LLP, San Francisco, California, and for the Underwriter by its counsel, Eichner & Norris PLLC, Washington, D.C. Payment of the fees of certain counsel to the transaction is contingent upon the issuance and delivery of the Bonds as described herein.

ABSENCE OF LITIGATION

The Issuer

There is no pending 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.

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 that would materially adversely affect the Borrower's obligations under the Bond Financing Documents.

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 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.

[Borrower's Signature Page to Official Statement]

TAYLOR OAKS APARTMENTS INVESTORS, L.P.
a California limited partnership

By: FTF Taylor Oaks, LLC,
a California limited liability company,
its Co-General Partner

By: _____
Robert Putnam,
Managing Member

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

By: _____
Mark A. Wiese,
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 of the Health and Safety Code of the State.

“Actual Bond Mortgage Loan Amount” means the amount of the Bond Mortgage Loan that shall be outstanding on the Conversion Date as determined by Freddie Mac in accordance with the Construction Phase Financing Agreement.

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

“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 the payment of (a) the principal of and interest on the Bonds (but in no case less than all of the Outstanding Bonds when due) or (b) 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.

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

“Authorized Denomination” means \$5,000 principal amount or any integral multiple thereof within a series and maturity.

“Authorized Officer” means (a) when used with respect to the Issuer, each of the City Manager, the Debt Administrator, the Director of Housing, the Director of Finance, the Assistant Director of Finance and the Treasury Division Manager of the Issuer and such additional Person or Persons, if any, duly designated by the Issuer in writing to act on its behalf, (b) when used with respect to the Borrower, any [_____] of the Borrower and such additional Person or Persons, if any, duly designated by the Borrower in writing to act on its behalf, (c) 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, (d) when used with respect to the Servicer, any Person or Persons duly designated by the Servicer in writing to act on its behalf, (e) 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 and (f) prior to Conversion, when used with respect to the Construction Lender, any person who is authorized in writing to take the action in question on behalf of the Construction Lender.

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

“Bond Counsel” means (i) on the Delivery Date, Jones Hall, A Professional Law Corporation, the law firm delivering the approving opinion with respect to the Bonds, or (ii) any other firm of attorneys selected by the Issuer that is 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 is acceptable to the Credit Facility Provider.

“Bond Fee Component” means the regular, ongoing fees due from time to time to the Issuer, the Trustee, the Dissemination Agent, the Custodian and the Rebate Analyst, if any, expressed as a flat, fixed amount or in terms of a percentage of the principal amount of Outstanding Bonds (including Purchased Bonds) on an annual basis.

“Bond Financing Documents” means, collectively, the Indenture, the Bonds, the Financing Agreement, the Tax Regulatory Agreement, the Tax Certificate, the Continuing Disclosure Agreement and any Bond Mortgage Loan Documents not otherwise included in the foregoing list of documents. “Bond Fund” means the Bond Fund established by the Trustee pursuant to the Indenture.

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

“Bond Mortgage” means the First Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of the date of the Indenture, together with all riders and addenda thereto, granting a first priority mortgage and security interest in the Project to the Issuer to secure the repayment of the Bond Mortgage Loan which Bond Mortgage has been assigned by the Issuer to the Trustee and Freddie Mac, as the respective interest of the Trustee and Freddie Mac may appear, under and subject to the terms and conditions of the Intercreditor Agreement, as the same may be amended, supplemented or restated.

“Bond Mortgage Loan” means the loan made by the Issuer to the Borrower in the original principal amount equal to the principal amount of the Bonds pursuant to the Financing Agreement.

“Bond Mortgage Loan Documents” means the Bond Mortgage, the Bond Mortgage Note, the Financing Agreement, the Tax Regulatory Agreement, any Custodial Escrow Agreement, the Credit Facility, the Reimbursement Agreement, the Reimbursement Mortgage, the Intercreditor Agreement, the Pledge 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 evidencing, securing or otherwise relating to the Borrower’s obligations to the Credit Facility Provider in connection with the delivery of the Credit Facility.

“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 from the Borrower, including all riders and addenda thereto, evidencing the Borrower’s obligation to repay the Bond Mortgage Loan, as the same may be amended, supplemented or restated from time to time, which Bond Mortgage Note will be delivered to the Issuer and assigned by the

Issuer to the Trustee and Freddie Mac, as the respective interest of the Trustee and Freddie Mac may appear, under and subject to the terms and conditions of the Intercreditor Agreement.

“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 Resolution” means the resolution adopted by the Issuer authorizing the issuance of the Bonds.

“Bond Year” means, with respect to an issue of Bonds, each one-year period that ends at the close of business on the day in the calendar year that is selected by Borrower as indicated in the Tax Certificate. The first and last Bond Years may be short periods. If no day is selected by Borrower before the earlier of the final maturity of an issue of Bonds or the date that is five years after the Delivery Date of such issue of Bonds, each Bond Year ends on each anniversary of the Delivery Date for such issue of Bonds and on the final maturity of such issue of Bonds.

“Bondholder” or “Holder” or “Owner” means any Person who shall be the registered owner of any Outstanding Bond or Bonds.

“Bonds” means, collectively, the Series A-1 Bonds and the Series A-2 Bonds.

“Borrower” means Taylor Oaks Apartments Investors, L.P., a limited partnership duly organized and existing under the laws of the State, or any of its permitted successors or assigns, as owner of the Project.

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

“Borrower Equity Account” means the Borrower Equity Account of the Bond Mortgage Loan Fund established by the Trustee pursuant to the Indenture.

“Borrower Equity Deposit” means the amount specified in the Indenture, which shall be comprised of sources other than the proceeds of the Bonds.

“Business Day” means (1) any day other than (a) a Saturday, (b) a Sunday, (c) 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 authorized or obligated by law or executive order to remain closed, (d) a day on which the Principal Office of the Credit Facility Provider or the Construction Lender is closed, or (2) a day on which (i) banking institutions in the City of New York or in the city in which the Principal Office of the Trustee, the Credit Facility Provider or the Construction Lender is located are authorized or obligated by law or executive order to be closed or (ii) the New York Stock Exchange is closed.

“Certificate of the Issuer” and “Request of the Issuer” mean, respectively, a written certificate or request 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 and the regulations promulgated thereunder.

“Commitment” means the forward commitment from Freddie Mac to the Servicer pursuant to which Freddie Mac has agreed to provide credit enhancement for the Bond Mortgage Loan, as the same may be amended, modified or supplemented from time to time.

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

“Construction Lender” means Citibank, N.A., a national banking association, organized and operating under the laws of the United States of America as provider of the Construction Loan or, the Construction Phase Credit Facility, as applicable, and its permitted successors and assigns.

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

“Construction Loan” means the conventional construction loan made by the Construction Lender to the Borrower, the proceeds of which shall be advanced, in accordance with the terms of the Construction Loan Agreement and the Construction Phase Financing Agreement, to the Borrower (i) to pay Costs of the Project, (ii) to reimburse Freddie Mac for draws made upon the Credit Facility for the payment of accrued and unpaid interest on the Bond Mortgage Loan, and (iii) to pay any regular, ongoing fees due and payable to the Issuer, the Trustee and Freddie Mac and, prior to the Trustee’s receipt of a Direction to Release, to the Trustee, for the benefit of Freddie Mac, for deposit into the Freddie Mac Collateral Fund, as and to the extent necessary, to assure that, at all times during the Construction Phase, the sum of (a) amounts deposited and held in the Project Account of the Bond Mortgage Loan Fund plus (b) amounts deposited and held in the Freddie Mac Collateral Fund (disregarding any investment earnings thereon), is equal to an amount not less than the Construction Phase Collateral Requirement or any replacement construction loan acceptable to the Credit Facility Provider.

“Construction Loan Advance” means an advance on the Construction Loan made by the Construction Lender to or on behalf of the Borrower in the aggregate principal amount of not to exceed the amount specified in the Indenture.

“Construction Loan Agreement” means the Construction Loan Agreement between the Borrower and the Construction Lender, as such agreement may be amended, modified, supplemented or restated from time to time.

“Construction Loan Documents” means, individually and collectively, the Construction Phase Financing Agreement, the Construction Loan Agreement, the Construction Phase Credit Reimbursement Agreement, the Construction Phase Credit Facility (if applicable) and all other

documents evidencing, securing or otherwise relating to the Construction Loan or the Construction Phase Credit Facility, as applicable, including all amendments, modifications, supplements and restatements of such documents.

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

“Construction Phase Collateral Requirement” means \$[_____].

“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 Reimbursement Agreement” means the Letter of Credit and Reimbursement Agreement between the Borrower and the Construction Lender, 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 the date hereof, by and among Freddie Mac, the Construction Lender and the Servicer, 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 by the Servicer in the Notice of Conversion, which date shall be at least ten (10) days following the date on which the Notice of Conversion is delivered and shall be any Business Day of a month.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of the date of the Indenture, between the Borrower and the Dissemination Agent, as such Continuing Disclosure Agreement may from time to time be amended or supplemented.

“Cost,” “Costs” or “Costs of the Project” means costs paid with respect to the Project that (i) are 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 the date of a resolution of the Issuer to reimburse costs of the Project with proceeds of Bonds or the date of issue of the Bonds, 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 or 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 rehabilitation of the Project or payments received by such Affiliate due to early completion of the Project (or any portion thereof).

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

“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, (f) the Credit Facility Provider and the Credit Facility Provider’s counsel, (g) Borrower’s counsel attributable to the issuance of the Bonds and the Borrower’s financial advisor, if any, (h) the Construction Lender and the Construction Lender’s counsel and (i) the Rating Agency, (ii) costs of printing the offering documents relating to the sale of the Bonds and (iii) 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 in the Cost of Issuance Fund, which deposit shall be comprised of sources other than the proceeds of the Bonds.

“Credit Enhancement Agreement” means, the Credit Enhancement Agreement, dated as of the date of the Indenture between Freddie Mac and the Trustee, as such Credit Enhancement Agreement may from time to time be amended or supplemented.

“Credit Facility” means the Credit Enhancement Agreement or any Alternate Credit Facility at that time in effect.

“Credit Facility Account” means the Credit Facility Account of the Revenue Fund established by the Trustee pursuant to the Indenture.

“Credit Facility Interest Reimbursement Account” means the Credit Facility Interest Reimbursement Account of the Credit Facility Reimbursement Fund established by the Trustee, for the benefit of Freddie Mac, pursuant to the Indenture.

“Credit Facility Principal Reimbursement Account” means the Credit Facility Principal Reimbursement Account of the Credit Facility Reimbursement Fund established by the Trustee, for the benefit of Freddie Mac, pursuant to the Indenture.

“Credit Facility Provider” means, so long as the Credit Enhancement Agreement is in effect, Freddie Mac, or so long as any Alternate Credit Facility is in effect, the Credit Facility Provider then obligated under the Alternate Credit Facility.

“Credit Facility Reimbursement Fund” means the Credit Facility Reimbursement Fund established by the Trustee, for the benefit of Freddie Mac, pursuant the Indenture.

“Custodial Escrow Account” means, collectively, the account or accounts established and held by the Servicer from and after the Conversion Date in accordance with 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 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 under the Pledge Agreement, and any successor in such capacity.

“Delivery Date” means September __, 2011, the date of initial delivery of the Bonds to the initial purchasers thereof against payment therefor.

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

“Direction to Release” means a written direction to be delivered by Freddie Mac to the Trustee directing the Trustee to release the amounts on deposit in the Freddie Mac Collateral Fund to the Construction Lender, on behalf of the Borrower, for the purpose of repaying the Construction Loan or reimbursing the Construction Lender for any amounts which the Construction Lender is owed under the Construction Loan Documents.

“Dissemination Agent” means initially Wells Fargo Bank, National Association, or any dissemination agent subsequently appointed in accordance with the Continuing Disclosure Agreement.

“Dissemination Agent’s Fee” means the annual or semi-annual fees to the Dissemination Agent as compensation for the Dissemination Agent’s services under the Continuing Disclosure Agreement, which fee(s) shall not exceed the amount set forth in the Indenture during any twelve month period.

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

“Electronic Notice” means delivery of notice in a Word format or a Portable Document Format (“PDF”) by electronic mail to the electronic mail addresses listed in the Indenture, provided that if a sender receives notice that the electronic mail is undeliverable, notice must be sent as otherwise required by the Indenture.

“Eligible Funds” means (a) proceeds received pursuant to the Credit Facility, (b) proceeds of the Bonds received contemporaneously with the issuance and sale of the Bonds (including any Bond proceeds deposited to the Project Account of the Bond Mortgage Loan Fund on the Delivery Date), (c) proceeds from the investment or reinvestment of money described in clauses (a) and (b) above, or (d) money delivered to the Trustee and accompanied by a written opinion of nationally recognized counsel experienced in bankruptcy matters 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: (i) payment of such money to holders of the Bonds would not constitute a voidable preference under Section 547 of the Bankruptcy Code and (ii) the automatic stay provisions of Section 362(a) of the Bankruptcy Code would not prevent application of such money 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 Services” means and includes, but not by way of limitation, services, actions and things carried out and all expenses incurred by the Trustee, including in its capacity as Paying Agent and Bond Registrar, in respect of or to prevent default under the Indenture or the Bond Mortgage Loan Documents, including any reasonable attorneys’ or agents’ fees and expenses and other litigation costs that are entitled to reimbursement under the terms of the Financing Agreement, and other actions taken and carried out by the Trustee which are not expressly set forth in the Indenture or the Bond Mortgage Loan Documents.

“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 and the Credit Facility Provider.

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

“Forward Commitment Maturity Date” means _____, unless extended by Freddie Mac in accordance with the Commitment and the Guide.

“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 Collateral Fund” means the Freddie Mac Collateral Fund established by the Trustee, for the benefit of Freddie Mac, pursuant to the Indenture.

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

“Freddie Mac Reimbursement Amount” shall have the meaning given to that term in the Reimbursement Agreement.

“General Account” means the General Account of the Revenue Fund established by the Trustee pursuant to the Indenture.

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

“Guaranteed Payment” means the amount required to be paid to the Trustee pursuant to the Credit Facility, provided that so long as the Credit Enhancement Agreement is the Credit Facility, “Guaranteed Payment” shall have the meaning given to that term in the Credit Enhancement Agreement.

“Guide” means the Freddie Mac Delegated Underwriting for Targeted Affordable Housing Guide and the Freddie Mac Multifamily Seller/Servicer Guide, as applicable, as the same may be amended, modified or supplemented from time to time.

“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.

“Information Service” means, in accordance with then current guidelines of the Securities and Exchange Commission, the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor entity or entities designated by the Securities and Exchange Commission.

“Initial Construction Loan Advance” means the initial advance on the Construction Loan made by the Construction Lender to the Trustee, on behalf of Borrower and for the benefit of Freddie Mac, for deposit into the Freddie Mac Collateral Fund on the Delivery Date.

“Intercreditor Agreement” means the Intercreditor Agreement dated as of the date of the Indenture among the Issuer, the Trustee, Freddie Mac and the Construction Lender, as the same may be amended or supplemented.

“Interest Payment Date” means (i) each semi-annual date specified on the cover hereof of each year, commencing on the date set forth on the cover hereof, (ii) for Bonds subject to redemption but only with respect to such Bonds, the date of redemption (or purchase in lieu of redemption) and (iii) the Maturity Date.

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

“Investment Policy” means the City of San José’s Investment Policy, as previously adopted and as most recently amended by the City Council of the City of San José prior to the Delivery Date, and as may hereafter be amended or revised.

“Issuer” means the City of San José, a municipal corporation and chartered city, duly organized and existing under the Constitution and laws of the State of California.

“Issuer Fee” shall have the meaning given to that term in the Indenture.

“Letter of Credit” means the clean unconditional, irrevocable and transferrable standby letter of credit to be issued and delivered to, and for the sole benefit of, Freddie Mac by the Construction Lender in accordance with the terms of the Construction Phase Financing Agreement, together with any amendment delivered with respect to such letter of credit.

“Loan Differential” means the difference between the original principal amount of the Bond Mortgage Loan made to the Borrower pursuant to the Financing Agreement and the Actual Bond Mortgage Loan Amount, as determined by Freddie Mac in its sole discretion.

“Loan Equalization Payment” means a mandatory prepayment of the Bond Mortgage Loan at the discretion of Freddie Mac so as to cause a partial redemption of the Bonds on or prior to the Conversion Date in an amount equal to the Loan Differential.

“Maturity Date” means the maturity date of each serial bond and term bond within each series of the Bonds as set forth on the inside cover of this Official Statement.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

“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 such insurance proceeds or condemnation award, including reasonable attorneys’ fees.

“Notice of Conversion” means a written notice to be delivered not less than ten (10) days prior to the Conversion Date by the Servicer to the Issuer, the Trustee, the Borrower, the Construction Lender and Freddie Mac (i) stating that the Conditions to Conversion have been satisfied on or before the Forward Commitment Maturity Date or, if any Condition to Conversion has not been satisfied on or before the Forward Commitment Maturity Date, stating that such Condition to Conversion has been waived in writing by Freddie Mac (if a waiver is permitted) on or before the Forward Commitment Maturity Date, and (ii) confirming the Conversion Date.

“Official Statement” means this Official Statement relating to the sale and issuance 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 under the Guide, payable monthly in arrears as provided in the Reimbursement Agreement.

“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 during each twelve month period, which fee is equal to (and shall not exceed) \$[_____] and shall be payable [semi-]annually [in arrears on] [in advance on the Delivery Date and] each [_____] and] [_____] [commencing [_____]][thereafter].

“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 Outstanding, unless all Bonds shall be so owned, and provided that the Trustee has knowledge of the foregoing; provided, further, that all Purchased Bonds shall be deemed to be Outstanding, and the Trustee shall follow any direction provided by the Credit Facility Provider with respect to Purchased Bonds for the purposes hereof (Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish, to the satisfaction of the Trustee, the pledgee’s right to vote such Bonds, and in the event of a dispute as to the existence of such right, any decision by the Trustee taken upon the advice of counsel shall constitute full protection to the Trustee). 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, or 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, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated association, a limited liability company or a government or any agency or political subdivision thereof, or any other organization or entity (whether governmental or private).

“Pledge Agreement” means that certain Pledge, Security and Custody Agreement dated as of the date of the Indenture by and among Freddie Mac, the Custodian and the Borrower, as originally executed or as modified or amended from time to time, together with any similar agreement executed in connection with an Alternate Credit Facility, as originally executed or as amended or modified from time to time.

“Principal Office of the Construction Lender” means the office of the Construction Lender referenced in the Indenture or such other office or offices as the Construction Lender may designate from time to time.

“Principal Office of the Credit Facility Provider” means (i) 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 in writing from time to time, or (ii) the office of any Alternate 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 Alternate Credit Facility Provider may designate from time to time.

“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 Indenture pursuant to which municipal or governmental obligations are issued.

“Project” means, collectively, the land and residential rental apartment units, and related fixtures, equipment, furnishings and site improvements known as Taylor Oaks Apartments located at 2726-2738 Kollmar Drive in San José, California, including the real estate described in the Bond Mortgage.

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

“Purchase Price” means the purchase price of the Bonds in the case of any purchase in lieu of redemption thereof.

“Purchased Bond” means any Bond pursuant to the Indenture 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 (a) transferred pursuant to and in accordance with the Indenture or (b) redeemed or otherwise cancelled.

“Purchased Bonds Account” means the Purchased Bonds Account of the Bond Fund established by the Trustee pursuant to the Indenture.

“Qualified Investments” means any of the following, only if and to the extent permitted by law for the investment of moneys of the Issuer and conforming to the Investment Policy, except as such other investments shall have been approved by the Issuer in connection with the issuance and delivery of the Bonds: (a) direct and general obligations of the United States of America; (b) obligations of any agency or instrumentality of the United States of America 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 of America 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 “VMIG-1”/“A-1+” by Moody’s/S&P which deposits or certificates are fully insured by the Federal Deposit Insurance Corporation or collateralized pursuant to the requirements of the Office of the Comptroller of the Currency; (f) investment agreements with Freddie Mac or a bank or any insurance company or other financial institution which has a rating assigned by Moody’s/ 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 Moody’s/S&P, and which are approved by the Credit Facility Provider and the Construction Lender; (g) shares or units in any money market mutual fund rated “Aaa”/ “AAA” by Moody’s/S&P (or if a new rating scale is implemented, the equivalent rating category given by the Rating Agency for that general category of security) (including mutual funds of the Trustee or its affiliates or for which the Trustee or an affiliate thereof serves as investment advisor or provides other services to such mutual fund receives reasonable compensation therefor) registered under the Investment Company Act of 1940, as amended, whose investment portfolio consists solely of (A) direct obligations of the government of the United States of America, or (B) tax-exempt obligations; (h)(i) tax exempt obligations rated in the highest short term rating category by Moody’s/S&P, or (ii) shares of a tax-exempt municipal money market mutual fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, having assets of at least \$100,000,000, and having a rating of “Aaa”/“AAA” by Moody’s/S&P (or if a new rating scale is implemented, the equivalent rating category given by the Rating Agency for that general category of security), for which at least 95% of the income paid to the holders on interest in such money market fund will be excludable from gross income under Section 103 of the Code, including money market funds for which the Trustee or its affiliates receive a fee for investment advisory or other services to the fund; or (i) any other investments approved in writing by the Credit Facility Provider and the Construction Lender. For purposes of this definition, the “highest rating” shall mean a rating of at least “VMIG-1”/“A-1+” for obligations with less than one year maturity; at least “Aaa”/“VMIG-1”/“AAA”/ “A-1+” for obligations with a maturity of

one year or greater but less than three years; and at least “Aaa”/ “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, with the prior written consent of the Issuer, to make the computations required under the Indenture and the Financing Agreement.

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

“Record Date” means the 15th day of the month preceding the month in which any Interest Payment Date falls.

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

“Reimbursement Agreement” means the Reimbursement and Security Agreement dated as of the date of the Indenture between the Borrower and Freddie Mac, as the same may be amended, supplemented or restated from time to time, and 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, supplemented or restated from time to time.

“Reimbursement Mortgage” means the Second Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of the date of the Indenture from the Borrower to Freddie Mac, together with all riders and addenda thereto, granting a second priority mortgage and security interest in the Project to Freddie Mac to secure the obligations of the Borrower under the Reimbursement Agreement and all documents related thereto, and upon the effectiveness of any Alternate Credit Facility, any similar mortgage, deed of trust, deed to secure debt, security interest or other lien or encumbrance granting a mortgage and security interest in the Project to the Alternate Credit Facility Provider to secure similar obligations of the Borrower to the Alternate Credit Facility Provider, as the same may be amended, supplemented or restated from time to time.

“Reimbursement Security Documents” shall have the meaning given to that term in the Reimbursement Agreement.

“Requisition” means, with respect to the Bond Mortgage Loan Fund, the requisition in the form attached to the Indenture required to be submitted in connection with disbursements from the Project Account and/or the Borrower Equity Account of 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.

“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 the trusts created under the Indenture.

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

“Revenues” means (a) all payments made with respect to the Bond Mortgage Loan pursuant to the Financing Agreement, the Bond Mortgage Note or the Bond Mortgage, 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 Reimbursement Security Documents), (b) payments made by the Credit Facility Provider pursuant to the Credit Facility and (c) all money and securities held by the Trustee in the funds and accounts established pursuant to the Indenture (excluding money or securities designated for deposit into and held in the Cost of Issuance Fund, the Administration Fund, the Borrower Equity Account, the Freddie Mac Collateral Fund, the Credit Facility Reimbursement Fund and the Rebate Fund), together with all investment earnings thereon. Construction Loan Advances shall not constitute Revenues under the Indenture.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

“Series A-1 Bonds” means the Issuer’s Multifamily Housing Revenue Bonds (Taylor Oaks Apartments), Series 2011A-1.

“Series A-2 Bonds” means the Issuer’s Multifamily Housing Revenue Bonds (Taylor Oaks Apartments), Series 2011A-2.

“Securities Depository” means (a) The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, facsimile: (516) 227 4039 or (516) 227 4190; or (b) any replacement registered securities depository which has been designated in a certificate of the Issuer delivered to the Trustee and the Credit Facility Provider pursuant to the Indenture.

“Serial Bonds” means the Bonds identified as serial bonds on the inside front cover hereof.

“Servicer” means 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 will be Citibank, N.A.

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

“Special Purchased Bonds” shall have the meaning set forth under the heading “THE BONDS – Special Purchase in Lieu of Redemption.”

“Special Purchase Date” shall have the meaning set forth under the heading “THE BONDS – Special Purchase in Lieu of Redemption.”

“Special Purchase Price” shall have the meaning set forth under the heading “THE BONDS – Special Purchase in Lieu of Redemption.”

“State” means the State of California.

“Substitution Date” means the date established by the Trustee for the delivery to the Trustee of an Alternate Credit Facility pursuant to the Indenture.

“Tax Certificate” means, collectively, the Certificate as to Arbitrage executed by the Issuer and the Borrower on the Delivery Date and the Certificate Regarding Use of Proceeds executed by the Borrower on the Delivery Date.

“Tax Regulatory Agreement” means the Regulatory Agreement and Declaration of Restrictive Covenants dated as of the date of the Indenture, by and among the Issuer, the Trustee and the Borrower.

“Term Bonds” mean the Bonds identified as term bonds on the inside front cover hereof.

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

“Trust Estate” shall have the meaning set forth under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Trust Estate.”

“Unassigned Rights” means all of the rights of the Issuer and its directors, officers, commissioners, elected officials, attorneys, accountants, employees, agents and consultants to be held harmless and indemnified, to be paid its fees and expenses, to give or withhold consent to amendments, changes, modifications and alterations, to receive notices and the right to enforce such rights.

APPENDIX B

FORM OF CREDIT ENHANCEMENT AGREEMENT

[To Be Provided]

APPENDIX C
FORM OF BOND COUNSEL OPINION

[To Be Provided]

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

**[\$[2011A-1 PAR]
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-1**

**[\$[2011A-2 PAR]
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-2**

This Continuing Disclosure Agreement, dated as of [September 1, 2011] (this “Continuing Disclosure Agreement”), is executed and delivered by Taylor Oaks Apartments Investors, L.P., a limited partnership duly organized and existing under the laws of the State of California (the “Borrower”) and Wells Fargo Bank, National Association, as dissemination agent (the “Dissemination Agent”) and trustee (the “Trustee”) for the above-captioned bonds (the “Bonds”). The Bonds are being issued pursuant to a Trust Indenture, dated as of September 1, 2011 (the “Indenture”) between the City of San José (the “Issuer”) and the Trustee. Pursuant to the Indenture and the Financing Agreement, the Dissemination Agent and the Borrower covenant and agree as follows:

Section 1. Purpose of the Continuing Disclosure Agreement. This Continuing Disclosure Agreement is being executed and delivered by the Borrower and the Dissemination Agent for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Borrower and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Continuing Disclosure Agreement, and has no liability to any Person, including any holder of the Bonds or Beneficial Owner, with respect to any such reports, notices or disclosures.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 of this Continuing Disclosure Agreement.

“*Audited Financial Statements*” means, in the case of the Borrower, the annual audited financial statements prepared in accordance with generally accepted accounting principles, if any.

“*Beneficial Owner*” shall mean any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Disclosure Representative*” shall mean the administrator of the Project or his or her designee, or such other Person as the Borrower shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean [Wells Fargo Bank, National Association] acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Continuing Disclosure Agreement.

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934. All documents provided to the MSRB shall be in an electronic format and accompanied by identifying information, as prescribed by the MSRB. Initially, all document submissions to the MSRB pursuant to this Continuing Disclosure Agreement shall use the MSRB’s Electronic Municipal Market Access (EMMA) system at www.emma.msrb.org.

“*Participating Underwriter*” means Citigroup Global Markets Inc. and its successors and assigns.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The Borrower will, or will cause the Dissemination Agent to, not later than 180 days following the end of the Borrower’s fiscal year, commencing with the fiscal year ending in 2011, provide to the MSRB an Annual Report which is consistent with the requirements described below. No later than 15 Business Days prior to said date, the Borrower will provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package and may cross reference other information, provided that the audited financial statements for the prior calendar year of the Borrower may be submitted separately from the balance of the Annual Report.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent will contact the Disclosure Representative to determine if the Borrower is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent will send a notice to the MSRB in substantially the form attached as Exhibit B to this Continuing Disclosure Agreement.

(d) The Dissemination Agent will file a report with the Borrower and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided.

Section 4. Content of Annual Reports. The Borrower’s Annual Report will contain or incorporate by reference the financial information or operating data with respect to the Project, provided at least annually, of the type included in Exhibit A hereto, which Annual Report may, but is not required to, include Audited Financial Statements. If the Borrower’s audited financial

statements are not available by the time the Annual Report is required to be filed, the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available; and

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Borrower is an “Obligated Person” (as defined by the Rule), which have been filed with the MSRB. The Borrower will clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Listed Events. (a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events (each, a “Listed Event”):

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulty;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulty;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other Listed Events affecting the tax status of the Bonds;
- (vii) Modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the Borrower. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a

court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Borrower, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Borrower;

(xiii) The consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or paying agent or the change of the name of a trustee or paying agent, if material.

(b) The Dissemination Agent shall, within three (3) Business Days of obtaining actual knowledge of the occurrence of any potential Listed Event, pursuant to subsection (c) of this Section or otherwise, provide the Disclosure Representative with notice (by facsimile transmission confirmed by telephone or by email). While the Dissemination Agent is also the Trustee, the Dissemination Agent shall be deemed to have actual knowledge of those items listed in clauses (i), (iii), (solely with respect to funds held by the Trustee), (iv), (v), (vii), (viii), (ix), (x) and (xiv) above without the Dissemination Agent having received notice of such event. While the Dissemination Agent is not also the Trustee, the Dissemination Agent shall not be deemed to have actual knowledge of any items listed in clauses (i) - (xiv) above without the Dissemination Agent having received written notice of such event. For purposes of providing notice to the Disclosure Representative, the Dissemination Agent shall assume that the unscheduled draws described in clauses (iii) and (iv) reflect financial difficulty.

(c) Whenever the Borrower obtains knowledge of the occurrence of a potential Listed Event, the Borrower shall, within five (5) Business Days of obtaining such knowledge and in any event no more than eight (8) Business Days after the occurrence of such event, determine if such event is in fact a Listed Event that is required by the Rule to be disclosed and provide the Dissemination Agent with notice and instructions pursuant to subsections (d) or (e) below, as applicable.

(d) If the Borrower has determined that a Listed Event is required to be disclosed then the Borrower shall prepare a written notice describing the Listed Event and provide the same to the Dissemination Agent along with instructions to file the same pursuant to subsection (f) below.

(e) If the Borrower determines that an event is not required to be disclosed as a Listed Event then the Borrower shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been provided with a written notice describing a Listed Event pursuant to subsection (c) of this Section or otherwise, and is instructed by the Borrower to report the occurrence of such Listed Event, the Dissemination Agent shall, within

two (2) Business Days of its receipt of such written notice and in any event no more than ten (10) Business Days after the occurrence of the Listed Event, file the notice with the MSRB and send a copy to the Borrower. The foregoing notwithstanding, notice of a Listed Event described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Borrower and the Dissemination Agent may amend this Continuing Disclosure Agreement (and the Dissemination Agent will agree to any amendment so requested by the Borrower unless such amendment adversely affects its rights, duties, protections, immunities, indemnities or standard of care, as determined by the Dissemination Agent) and any provision of this Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions described under paragraph (a) under “Provision of Annual Reports,” “Contents of Annual Reports” or paragraph (a) under “Reporting of Listed Events,” it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an Obligated Person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Borrower will describe such amendment in the next Annual Report and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a Listed Event under Section 5(f) hereof and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Default. In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Continuing Disclosure Agreement, the Trustee may (and, at

the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon being indemnified to its satisfaction, will), or the Borrower or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking, or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement will not be deemed an Event of Default under the Indenture or the Financing Agreement, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Borrower or the Dissemination Agent to comply with this Continuing Disclosure Agreement will be an action to compel performance.

Section 8. Beneficiaries. This Continuing Disclosure Agreement will inure solely to the benefit of the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Bonds and will create no rights in any other Person or entity.

Section 9. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Borrower chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Borrower shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VII of the Indenture is hereby made applicable to this Continuing Disclosure Agreement as if this Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement, and the Borrower agrees to indemnify and save the Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their rights, obligations, powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's respective negligence or willful misconduct. The obligations of the Borrower under this Section shall survive the termination of this Continuing Disclosure Agreement, the resignation or removal of the Dissemination Agent or the Trustee and payment of the Bonds. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Borrower, the Bondholders, or any other party. Neither the Trustee or the Dissemination Agent shall have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from the breach of this Continuing Disclosure Agreement.

The Dissemination Agent agrees to disseminate the information provided to it hereunder in the form delivered by the Borrower. The Dissemination Agent is acting hereunder solely in an agency capacity and as such is merely a conduit for the Borrower, and shall have no liability or responsibility for the form, content, accuracy or completeness of any information furnished hereunder. Any such information may contain a legend to that effect.

The Dissemination Agent shall have no obligation to make disclosure concerning the Bonds, the Project or any other matter except as expressly set out herein, provided that no provision of this Continuing Disclosure Agreement shall limit the duties, trusts, rights, powers or obligations of the Trustee under the Indenture. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Borrower or any other party in connection with the Project or otherwise, apart from the relationship created by the Indenture and this Continuing Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Project except in its respective capacities under such agreements.

No provision of this Continuing Disclosure Agreement shall require or be construed to require the Borrower or the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder.

The Annual Report may contain such disclaimer language as the Borrower may deem appropriate. Any information disclosed hereunder by the Dissemination Agent may contain such disclaimer language as the Dissemination Agent may deem appropriate.

The Borrower hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Continuing Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

The Dissemination Agent may consult with counsel of its choice and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision, that such counsel may be counsel to the Borrower.

No provision of this Continuing Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights of powers.

Section 11. Notices. Any notices or communications to or among any of the parties to this Continuing Disclosure Agreement may be given at the addresses set forth in the Indenture. Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices of communications should be sent, effective only upon receipt.

Section 12. Governing Law. This Continuing Disclosure Agreement shall be governed by the laws of the State of California.

Section 13. Termination of this Continuing Disclosure Agreement. The Borrower or the Dissemination Agent may terminate this Continuing Disclosure Agreement by giving written notice to the other party at least 30 days prior to such termination. The Dissemination Agent shall be fully discharged at the time any such termination is effective.

Section 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of Page Left Blank Intentionally]

[Borrower's Signature Page to Continuing Disclosure Agreement]

TAYLOR OAKS APARTMENTS INVESTORS, L.P.
a California limited partnership

By: FTF Taylor Oaks, LLC,
a California limited liability company,
its Co-General Partner

By: _____
Robert Putnam,
Managing Member

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

By: _____
Mark A. Wiese,
President

[Trustee's signature page to Continuing Disclosure Agreement]

**WELLS FARGO BANK, NATIONAL
ASSOCIATION,**
as Trustee and Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A
ANNUAL REPORT

\$[2011A-1 PAR]*
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-1

\$[2011A-2 PAR]
City of San José
Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments)
Series 2011A-2

Report for Period Ending _____

THE PROJECT

Name: _____
Address: _____
Occupancy _____
Number of Units _____
Number of Units Occupied as of Report Date _____

OPERATING HISTORY OF THE PROJECT

The following table sets forth a summary of the operating results of the Project for fiscal year ended _____, as derived from the Borrower's [un]audited financial statements.

Revenues
Operating Expenses¹
Net Operating Income
Debt Service on the Loan
Net Operating Income/(Loss)
After Debt Service

The average occupancy of the Project for the fiscal year ended [____] was [____]%.

¹Excludes depreciation and other non-cash expenses, includes management fee.

* Preliminary; subject to change.

EXHIBIT B

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of San José

Name of Bond Issue: City of San José Multifamily Housing Revenue Bonds (Taylor Oaks Apartments)
Series 2011A-1 and City of San José Multifamily Housing Revenue Bonds
(Taylor Oaks Apartments) Series 2011A-2

Name of Borrower: Taylor Oaks Apartments Investors, L.P., a limited partnership duly organized and
existing under the laws of the State of California

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the above-referenced borrower (the “Borrower”) has not provided an Annual Report in connection with the above-named bonds (the “Bonds”) as required by a Trust Indenture, dated as of September 1, 2011 (the “Indenture”), between the above-named Issuer (the “Issuer”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”) and the Financing Agreement, dated as of September 1, 2011, by and among the Issuer, the Trustee, and the Borrower. The undersigned has been informed by the Borrower that it anticipates that the Annual Report will be filed by _____.

Dated:

**WELLS FARGO BANK, NATIONAL
ASSOCIATION,**
as Trustee and Dissemination Agent

By: _____
Name: _____
Title: _____

cc: Borrower