

In the opinion of Hawkins, Delafield & Wood, under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, (a) assuming continuing compliance with certain tax covenants as described herein, (i) interest on the Series 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2003 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (b) the Series 2003 Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Series 2003 Bonds for certain owners thereof, and certain requirements of the Code must be satisfied after the date of issuance of the Series 2003 Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law, all as described herein under the heading "Tax Matters".

\$663,060,000
PUERTO RICO HOUSING FINANCE AUTHORITY
Capital Fund Program Bonds
(Puerto Rico Public Housing Administration Projects)
Series 2003

Dated: The date of issuance

Due: As shown on inside cover page

Puerto Rico Housing Finance Authority (the "Authority") will issue its Capital Fund Program Bonds (Puerto Rico Public Housing Administration Projects), Series 2003 (the "Series 2003 Bonds") under a Master Trust Indenture between the Authority and U.S. Bank Trust National Association, as trustee (the "Trustee"), to lend the proceeds thereof to the Puerto Rico Public Housing Administration ("PHA"), a governmental instrumentality of the Commonwealth of Puerto Rico. PHA will utilize such funds to make certain improvements to various public housing projects in the Commonwealth of Puerto Rico. The Series 2003 Bonds will be paid solely from (i) PHA's annual allocation of Public Housing Capital Funds (the "Capital Fund Allocations") when received from the United States Department of Housing and Urban Development ("HUD"), which Capital Fund Allocations will be paid directly by HUD to the Trustee to the extent necessary to pay Loan Debt Service (as defined below on page 3), and (ii) other funds available for that purpose under the Indenture (as defined below on page 1).

HUD has provided written confirmations to the Authority and PHA that effectively establish that, subject to appropriation, the claim for the payment of Loan Debt Service constitutes a first priority claim of the Trustee against all Capital Fund Allocations to be made available to PHA in any fiscal year.

The Series 2003 Bonds will be issued only in book-entry form in denominations of \$5,000 stated principal amount or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, acting as Securities Depository for the Series 2003 Bonds. Beneficial Owners of Series 2003 Bonds will not receive certificates representing their ownership of Series 2003 Bonds.

The Series 2003 Bonds will bear interest from their date of issuance at the per annum rates set forth on the inside cover page of this Official Statement, payable on June 1, 2004, and on each December 1 and June 1 thereafter. The Series 2003 Bonds are payable in full on their respective stated maturity dates. The Series 2003 Bonds are subject to redemption at par prior to their stated maturity dates from certain sources as described herein.

The principal of and redemption premium, if any, and interest on the Series 2003 Bonds are limited obligations of the Authority, a subsidiary of Government Development Bank for Puerto Rico and a governmental instrumentality of the Commonwealth of Puerto Rico, payable solely from (i) the Capital Fund Allocations, and (ii) other funds available for that purpose under the Indenture. The Series 2003 Bonds do not constitute a debt, obligation or pledge of the credit of the Commonwealth of Puerto Rico or any of its municipalities or political subdivisions or of Government Development Bank for Puerto Rico or any other instrumentality of the Commonwealth of Puerto Rico (other than the Authority from the sources described herein), and neither the Commonwealth of Puerto Rico nor any of its municipalities or political subdivisions nor Government Development Bank for Puerto Rico or any other public instrumentality of the Commonwealth of Puerto Rico (other than the Authority from the sources described herein) shall be liable for the payment thereof.

The Series 2003 Bonds are not a debt or liability insured or guaranteed by the United States of America or HUD or any other governmental agency or by any other person. The Authority has no taxing power.

The Series 2003 Bonds are offered by the Underwriters when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, O'Neill & Borges, San Juan, Puerto Rico. Certain legal matters will be passed upon for PHA by its counsel, Patton Boggs LLP, Washington, D.C. It is expected that the Series 2003 Bonds will be delivered through the facilities of DTC on or about December 18, 2003.

Banc of America Securities LLC

Citigroup

UBS Financial Services Inc.

**Goldman, Sachs & Co.
Merrill Lynch & Co.
Samuel Ramirez & Co.**

**JP Morgan
Morgan Stanley**

**Lehman Brothers
Raymond James & Associates, Inc.
Wachovia Bank, National Association**

\$663,060,000
PUERTO RICO HOUSING FINANCE AUTHORITY
Capital Fund Program Bonds
(Puerto Rico Public Housing Administration Projects)
Series 2003

<u>Maturity</u> <u>December 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
2005	\$21,735,000	2.000%	1.490%	100.977
2006	13,540,000	2.000%	1.800%	100.572
2006	8,680,000	3.000%	1.800%	103.435
2007	22,770,000	2.500%	2.150%	101.318
2008	10,135,000	3.000%	2.600%	101.846
2008	13,370,000	4.500%	2.600%	108.775
2009	17,165,000	3.000%	2.860%	100.760
2009	7,215,000	4.500%	2.860%	108.917
2010	8,535,000	4.000%	3.100%	105.589
2010	16,855,000	5.000%	3.100%	111.800
2011	6,680,000	4.000%	3.360%	104.432
2011	19,935,000	5.000%	3.360%	111.360
2012	1,575,000	4.000%	3.590%	103.114
2012	26,365,000	5.000%	3.590%	110.712
2013	5,740,000	4.000%	3.710%	102.393
2013	23,595,000	5.000%	3.710%	110.651
2014	30,810,000	5.000%	3.850% *	109.431
2015	32,390,000	5.000%	3.970% *	108.398
2016	34,050,000	5.000%	4.080% *	107.461
2017	35,795,000	5.000%	4.150% *	106.870
2018	37,630,000	5.000%	4.220% *	106.283
2019	39,560,000	5.000%	4.270% *	105.866
2020	41,590,000	5.000%	4.360% *	105.120
2023	37,235,000	4.500%	4.650%	98.061
2024	50,110,000	4.600%	4.700%	98.673

\$100,000,000 4.650% Term Bond due December 1, 2023 – Price 100.00%

* Yield to December 1, 2013 call date.

No dealer, broker, sales representative or other person has been authorized by Puerto Rico Housing Finance Authority, Puerto Rico Public Housing Administration, Government Development Bank for Puerto Rico or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2003 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Puerto Rico Housing Finance Authority, Puerto Rico Public Housing Administration or Government Development Bank for Puerto Rico since the date hereof. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2003 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$663,060,000

PUERTO RICO HOUSING FINANCE AUTHORITY
Capital Fund Program Bonds
(Puerto Rico Public Housing Administration Projects)
Series 2003

INTRODUCTION

This Official Statement of Puerto Rico Housing Finance Authority (the “Authority”) sets forth certain information in connection with the sale by the Authority of its Capital Fund Program Bonds (Puerto Rico Public Housing Administration Projects), Series 2003 (the “Series 2003 Bonds”). The Series 2003 Bonds will be issued in the aggregate principal amount of \$663,060,000 pursuant to a resolution adopted by the Board of Directors of the Authority and a Master Trust Indenture, dated as of December 1, 2003 (the “Trust Indenture”), and a First Supplemental Trust Indenture, dated as of December 1, 2003 (the “First Supplemental Indenture” and, together with the Trust Indenture, as amended and supplemented, the “Indenture”), each between the Authority and U.S. Bank Trust National Association, as Trustee (the “Trustee”). See “Appendix A – Summary of the Indenture”. The Series 2003 Bonds are expected to be delivered on the date set forth on the cover page. The Trust Indenture allows for the issuance of additional obligations in the form of bonds or notes thereunder (“Additional Bonds” and, together with the Series 2003 Bonds, the “Bonds”) secured under the Indenture on a parity with the Series 2003 Bonds.

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

The Authority will issue the Series 2003 Bonds to lend the proceeds thereof to the Puerto Rico Public Housing Administration (“PHA”), a governmental instrumentality of the Commonwealth. PHA will utilize such funds to make certain improvements to various public housing projects in the Commonwealth (collectively, the “Projects”). See “Appendix B – The Projects”.

The Series 2003 Bonds will be paid solely from (i) PHA’s annual allocation of Public Housing Capital Funds (the “Capital Fund Allocations”), when received from the United States Department of Housing and Urban Development (“HUD”) pursuant to the Public Housing Capital Fund Program (the “Capital Fund Program”), and (ii) other funds available for that

purpose under the Indenture. PHA's rights to the Capital Fund Allocations will be assigned to the Trustee pursuant to the Indenture, to the extent necessary to pay Loan Debt Service.

On December 3, 2003, HUD approved the issuance of the Series 2003 Bonds subject to certain conditions, and authorized PHA to pledge and assign its Capital Fund Allocations to the extent necessary to pay Loan Debt Service pursuant to a letter from HUD to PHA and the Authority (the "HUD Approval Letter"), a copy of which is attached hereto as Appendix C. PHA receives funding from HUD pursuant to an Annual Contributions Contract (the "ACC"). HUD and PHA have entered into a Capital Fund Financing Amendment to the ACC (the "ACC Financing Amendment"), which provides generally for the use by PHA of its Capital Fund Allocations to pay principal of and interest on the Series 2003 Bonds. The ACC Financing Amendment is attached hereto as Appendix D. See "Capital Fund Program - HUD Approval Letter" and "ACC Financing Amendment" below.

Brief descriptions of the Authority, the security for the Series 2003 Bonds, including PHA's Capital Fund Allocations, the Series 2003 Bonds, the Indenture, the HUD Approval Letter and the ACC Financing Amendment are included in this Official Statement. All references herein to the Indenture, the HUD Approval Letter, the ACC Financing Amendment 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.

The principal of and redemption premium, if any, and interest on the Series 2003 Bonds are limited obligations of the Authority, payable solely from (i) the Capital Fund Allocations, and (ii) other funds available for that purpose under the Indenture. The Series 2003 Bonds do not constitute a debt, obligation or pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority from the sources described herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority from the sources described herein) shall be liable for the payment thereof.

The Series 2003 Bonds are not a debt or liability insured or guaranteed by the United States of America or HUD or any other governmental agency or by any other person. The Authority has no taxing power.

Capitalized terms not defined elsewhere in this Official Statement are defined on Appendix A.

THE AUTHORITY

The Authority is a subsidiary of Government Development Bank and an independent governmental instrumentality of the Commonwealth. Pursuant to Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, Government Development Bank was established with the power to create subsidiary corporations. On November 16, 1977, the Board

of Directors of Government Development Bank approved Resolution No. 4023 (the “Enabling Resolution”) creating the Puerto Rico Housing Finance Corporation (“PRHFC”) as a subsidiary corporation of Government Development Bank. Pursuant to Act No. 103 of the Legislature of Puerto Rico, approved August 11, 2001, as amended by Act No. 107 of the Legislature of Puerto Rico, approved July 31, 2002, (i) PRHFC was renamed the Puerto Rico Housing Finance Authority, (ii) the Puerto Rico Housing Bank and Finance Agency (an entity that was created in 1961 and most recently acted as a constituent entity within the Housing Department of the Commonwealth) was dissolved and all of its powers and functions were transferred to the Authority, (iii) the membership of the Board of Directors of the Authority was set forth, and (iv) the Board of Directors of Government Development Bank was given overriding power, pursuant to the Enabling Resolution, to set forth and amend the powers and duties of the Authority. The Authority is authorized to issue its notes and bonds to achieve its corporate purposes and to lend money to any person, firm, corporation or other organization for the purpose of developing the economy of Puerto Rico.

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

The principal officers of the Authority are the following:

President. Antonio Faría Soto. Mr. Faría was appointed President of Government Development Bank and of the Authority in November 2003. At the time of his appointment, he was President of the Economic Development Bank for Puerto Rico. Prior to this, he served as the Commissioner of Financial Institutions of the Commonwealth. Mr. Faría has over 30 years of experience in the commercial and investment banking industry, working at Paine Webber, Banco Santander, Banco Central Hispano, Banco Central y Economías and Citibank, NA. He earned a Masters Degree in Business Administration from the Inter American University and a Bachelor’s Degree in Business Administration from Catholic University of Puerto Rico.

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

The role of the Authority in this transaction is to be the issuer of the Series 2003 Bonds and to lend the proceeds thereof to PHA (the “Loan”) pursuant to the terms of a certain Loan and Oversight Agreement among the Authority, PHA, the Trustee and Government Development Bank (the “Loan Agreement”). Repayment of the Loan, including debt service and other costs of the Series 2003 Bonds, is referred to hereinafter as “Loan Debt Service.”

The Authority will also execute the Disclosure Agreement (as defined below on page 35) with the Trustee and PHA, pursuant to which it will appoint the Trustee as its agent for purposes of filing the Annual Information (as defined below on page 35) to be provided by PHA. See “Continuing Disclosure” below.

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

PUERTO RICO PUBLIC HOUSING ADMINISTRATION

PHA is a government agency attached to the Department of Housing of the Commonwealth, created pursuant to Act No. 66 of the Legislature of the Commonwealth, approved August 17, 1989, as amended. PHA was created with “the purpose and function of achieving a highly efficient administration of public residential projects.” PHA operates over 56,000 units of public housing in 329 properties located in 76 municipalities throughout the Commonwealth. It receives operating subsidies and capital funding grants (“Capital Funds”) from HUD, as do virtually all the 3,200 public housing authorities in the United States, which Capital Funds may be used, among other things, to finance the renovation and modernization of public housing developments. See, generally, “Security For the Series 2003 Bonds” and “Capital Fund Program” below.

Act No. 71 of the Legislature of the Commonwealth, approved on January 10, 2003, created the Board of Governors of PHA. The Board of Governors of PHA is comprised of seven members, four of whom are *ex-officio* representatives of other governmental agencies, two are public housing residents and one is a representative of the private sector. The four *ex-officio* members are: the Secretary of Housing, who serves as the Chair, the Secretary of Family Affairs, the Secretary of Labor and Human Resources, and the Executive Director of the Authority. The public housing resident members and the representative of the private sector are nominated by the Secretary of Housing and approved by the Governor of the Commonwealth every three years. Annually, the Board of Governors elects a Vice-President from its members.

The principal officers of PHA are the following:

Chair of the Board of Governors. Iléana Echegoyen Santalla. Ms. Echegoyen is Secretary of Housing of the Commonwealth. She received a B.A. with a major in Statistics and a minor in Physics in 1969. She has also done post-graduate studies in Public Administration. In 1993, she was appointed as the Director of Housing of the Municipality of Carolina, and from 1994 to 1999, she was the Puerto Rico State Director of the Farmers Home Administration. In 1999, she became the head of the Department of Housing of the Municipality of San Juan. In January 2001, she was named Secretary of Housing, and became Chair of the Board of Governors of PHA upon its creation in 2003.

Administrator. Carlos G. Laboy Diaz. Mr. Laboy was appointed Administrator of PHA on July 15, 2001. At the time of his appointment, he was Director of the Federal Affairs Office of the Metropolitan Bus Authority. Mr. Laboy has more than twelve years of experience in property management, having worked for several property management firms directing daily operations. He is a Certified Manager of Housing, Certified Manager of Maintenance and

Certified Manager of Occupancy. He is also a member of the National Association of Housing and Redevelopment Officials and of the Public Housing Authorities Directors Association.

Deputy Administrator. Carlos R. Fournier Gonzalez. Mr. Fournier was appointed Deputy Administrator of PHA on February 16, 2002. He obtained a Bachelor's Degree in Electrical Engineering from the Polytechnic University of Puerto Rico. He is a Licensed Professional Engineer and a member of the Puerto Rico Professional Association of Engineers and Surveyors. He has worked for over ten years in public housing management and construction management. In 2000, he earned a Masters Degree in Engineering Management with a concentration in Construction Management from the Polytechnic University of Puerto Rico. He has worked for several private property management companies and has served as project manager for a modernization program management firm.

PHA's mailing address is 606 Barbosa Avenue, Rio Piedras, Puerto Rico 00936.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As provided by Act No. 272 of the Legislature of the Commonwealth, approved May 15, 1945, as amended, the principal functions of Government Development Bank are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities and public corporations in connection with the issuance of bonds and notes, and to make loans and advances to public corporations and municipalities.

As financial advisor and fiscal agent for the Commonwealth, Government Development Bank also participated in the selection of the Underwriters of the Series 2003 Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth and its instrumentalities and public authorities.

Pursuant to the Loan Agreement, Government Development Bank will provide oversight to assist PHA in keeping each Project "On Budget" and "On Schedule" (as both terms are defined in the Loan Agreement), as requested by HUD. PHA has agreed to take all reasonable actions, and include all reasonable covenants in construction contracts, necessary or desirable with the goal of ensuring that construction of each Project proceeds and is completed On Budget and On Schedule.

The definitions of the terms "On Budget" and "On Schedule" contained in the Loan Agreement are the following:

"On Budget" means that, relative to a specific Project and its associated project budget and as of the specific date and draw request for which the oversight procedures contemplated by the Loan Agreement are carried out, the cumulative sum of (a) Loan disbursements and (b) advances made but not repaid pursuant to the GDB Project Loan Agreement (as defined below on page 6) (both with respect to the subject Project only), less any budgeted contingency amounts expended, are not greater than the sum of budgeted amounts associated with Project work

actually completed or in process plus the cost of any materials stored on site but not yet incorporated into the Project.

“On Schedule” means that, relative to a specific Project and its associated project schedule and as of the specific date and draw request for which the oversight procedures contemplated by the Loan Agreement are carried out, the work which has been wholly or partially completed is not more than ninety (90) days delayed during each of three consecutive months relative to the progress of the work contemplated by the project schedule.

Appendix B lists the proposed commencement date, size and completion date of each Project. PHA reserves the right at its sole discretion, at any time and from time to time, to substitute any of the Projects listed in Appendix B for new Projects.

In the event a Project is not On Budget or is not On Schedule, Government Development Bank will lend funds to PHA to continue the Project, under the terms of a certain GDB Project Loan Agreement (the “GDB Project Loan Agreement”) establishing a line of credit in the maximum principal amount of \$97,169,175.81. While there are funds available under the GDB Project Loan Agreement, the proceeds of the Series 2003 Bonds may not be used with respect to a Project which is not On Budget and On Schedule. This may result in an accumulation of unexpended proceeds of the Series 2003 Bonds. Advances under the GDB Project Loan Agreement (collectively, the “GDB Loan”) are not available to pay debt service of the Series 2003 Bonds. PHA will in certain circumstances be obligated to pay debt service on the GDB Loan (the “GDB Debt Service”) from Capital Fund Allocations. Loan Debt Service and GDB Debt Service are referred to hereinafter collectively as “Transaction Debt Service”.

The failure of a Project to be completed On Schedule and On Budget by its related scheduled completion date may result in the redemption of Series 2003 Bonds, at the option of the Authority, at par from available amounts under the Indenture, including unexpended proceeds of the Series 2003 Bonds, allocable to such Project.

THE SERIES 2003 BONDS

General

The Series 2003 Bonds will mature as stated on the inside front cover page of this Official Statement. Interest is payable on the Series 2003 Bonds on each June 1 and December 1 (each an “Interest Payment Date”), commencing June 1, 2004. The Series 2003 Bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 and integral multiples thereof. Upon satisfaction of certain conditions as specified in the Indenture, the Authority may issue Additional Bonds secured on a parity basis with the Series 2003 Bonds. See “The Series 2003 Bonds - Additional Bonds” below.

The principal of and premium, if any, on the Series 2003 Bonds shall be payable upon the presentation and surrender of the Series 2003 Bonds at the principal office of the Trustee as Paying Agent as the same shall become due and payable. Payment of the interest on each Series

2003 Bond shall be made by the Paying Agent by check or draft mailed to the Holder thereof as of the applicable Record Date, at the address shown on the registration books kept by the Registrar. One fully registered Series 2003 Bond for each maturity will be issued in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”) as registered owner of all Series 2003 Bonds. See “The Series 2003 Bonds – Book-Entry Only System” below. Beneficial ownership of the Series 2003 Bonds may be acquired in denominations of \$5,000 and integral multiples thereof.

THE PRINCIPAL OF AND REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2003 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM (i) THE CAPITAL FUND ALLOCATIONS, AND (ii) OTHER FUNDS AVAILABLE FOR THAT PURPOSE UNDER THE INDENTURE. THE SERIES 2003 BONDS DO NOT CONSTITUTE A DEBT, OBLIGATION OR PLEDGE OF THE CREDIT OF THE COMMONWEALTH OF PUERTO RICO OR ANY OF ITS MUNICIPALITIES OR POLITICAL SUBDIVISIONS OR OF GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO OR ANY OTHER PUBLIC INSTRUMENTALITY OF THE COMMONWEALTH OF PUERTO RICO (OTHER THAN THE AUTHORITY FROM THE SOURCES DESCRIBED HEREIN), AND NEITHER THE COMMONWEALTH OF PUERTO RICO NOR ANY OF ITS MUNICIPALITIES OR POLITICAL SUBDIVISIONS NOR GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO OR ANY OTHER PUBLIC INSTRUMENTALITY OF THE COMMONWEALTH OF PUERTO RICO (OTHER THAN THE AUTHORITY FROM THE SOURCES DESCRIBED HEREIN) SHALL BE LIABLE FOR THE PAYMENT THEREOF.

THE SERIES 2003 BONDS ARE NOT A DEBT OR LIABILITY INSURED OR GUARANTEED BY THE UNITED STATES OF AMERICA OR HUD OR ANY OTHER GOVERNMENTAL AGENCY OR BY ANY OTHER PERSON. THE AUTHORITY HAS NO TAXING POWER.

Redemption Provisions

Optional Redemption

The Series 2003 Bonds maturing on or after December 1, 2014 shall be subject to redemption prior to maturity at the option of the Authority as a whole, or in part in integral multiples of \$5,000 in any order of their maturity as determined by the Authority (less than all of the Series 2003 Bonds of a single maturity to be selected by lot by the Trustee), on December 1, 2013, and on any date thereafter, at the redemption price of par plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption

The Term Bond due on December 1, 2023 is subject to mandatory redemption, in integral multiples of \$5,000 selected by lot by the Trustee, at a redemption price of par plus accrued interest to the redemption date, on December 1 of each of the years and in the principal amounts as follows:

<u>Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>
2021	\$ 43,645,000
2022	\$ 45,720,000
2023*	\$ 10,635,000

*Maturity

The principal amounts of Term Bonds to be mandatorily redeemed in each year may be reduced through the earlier optional or special optional redemption thereof, with any partial optional redemptions of such Term Bonds credited against future mandatory redemption requirements in such order of the mandatory redemption dates as the Authority may determine. In addition, on or prior to the 60th day preceding any mandatory redemption date, the Trustee may, and if directed by the Authority shall, purchase Term Bonds required to be retired on such mandatory redemption date. Any such Term Bonds so purchased shall be cancelled and the principal amount thereof shall be credited against the mandatory sinking fund redemption required on such next mandatory sinking fund redemption date.

Special Optional Redemption

The Series 2003 Bonds are subject to redemption in whole or in part, at any time, at a redemption price of par plus accrued interest to the redemption date, under the circumstances set forth below:

- (i) at the direction of HUD or the Authority, in the event that HUD imposes administrative sanctions on PHA which would have the effect of reducing the payment of Capital Funds to PHA in any year by at least 20%. The unexpended proceeds of the Series 2003 Bonds, less the amounts (x) already obligated or encumbered for the payment of Eligible Costs (as defined in the Loan Agreement) and (y) needed to be maintained in the Debt Service Reserve Account in order to meet the Debt Service Reserve Account Requirement, shall be used for such redemption; or
- (ii) at the option of the Authority, in the event that there shall occur an Event of Redemption under the Loan Agreement, or as otherwise described under “Government Development Bank for Puerto Rico” above.

Special Mandatory Redemption

The Series 2003 Bonds shall be redeemed in whole or in part, at any time, at a redemption price of par plus accrued interest to the redemption date, in the event that:

- (i) any of the Projects financed by the Series 2003 Bonds are substantially destroyed by casualty or taken by eminent domain; and

- (ii) the proceeds of any insurance or condemnation awards with respect thereto are not applied towards the repair, rebuilding or replacement of such developments; and
- (iii) any Rating Agency determines that the failure to apply such proceeds to the redemption of the Series 2003 Bonds would result in a reduction or withdrawal of the underlying rating on the Series 2003 Bonds.

General

The Series 2003 Bonds shall be redeemed only in the principal amount of \$5,000 and integral multiples thereof.

With respect to any optional redemption of Series 2003 Bonds, unless moneys sufficient to pay the redemption price of the Series 2003 Bonds to be redeemed shall have been received by the Trustee prior to the giving of the notice of redemption, such notice may, at the option of the Authority, state that such redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such Series 2003 Bonds, and the Trustee shall give notice, in the same manner in which the notice of redemption shall have been given, that such moneys were not so received and that such Series 2003 Bonds will not be redeemed.

Selection of Bonds for Redemption

In the event that less than all Series 2003 Bonds are to be redeemed, the Authority (after consultation with Government Development Bank and PHA) may choose Series 2003 Bonds among various maturities for redemption in its discretion. With respect to redemption of Series 2003 Bonds of the same maturity and interest rate, the Trustee shall choose Series 2003 Bonds for redemption by lot. If less than all of the Series 2003 Bonds are to be redeemed, each Series 2003 Bond shall be treated as representing that number of Series 2003 Bonds which is obtained by dividing the face amount thereof by the smallest authorized denomination (\$5,000).

Notice of Redemption

The Trustee shall cause notice of any redemption of Series 2003 Bonds to be mailed to the record holders of all Series 2003 Bonds to be redeemed at the registered addresses appearing in the registration books held by the Trustee and shall send a copy of such notice to HUD. Such notice shall be given by first class mail or registered or certified mail, return receipt requested (such delivery method to be determined by the Trustee), no less than 30 days nor more than 60 days before the redemption date. Each such notice shall (i) identify the Series 2003 Bonds to be redeemed (specifying the CUSIP numbers, if any, assigned to the Series 2003 Bonds), (ii) specify the redemption date and the redemption price, and (iii) state that on the redemption date the Series 2003 Bonds called for redemption will be payable at the principal corporate trust office of the Trustee, that from that date interest will cease to accrue, and that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Series

2003 Bonds. No defect affecting any Series 2003 Bond, whether in the notice of redemption or mailing thereof (including any failure to mail such notice), shall affect the validity of the redemption proceedings for any other Series 2003 Bonds for which notice was properly given. If at the time of mailing of any notice of redemption the Authority shall not have deposited with the Trustee moneys sufficient to redeem all the Series 2003 Bonds called for redemption, such notice may state that it is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date and shall be of no effect unless such moneys are so deposited. If such moneys are not deposited by such date and time, the Trustee shall promptly notify the holders of all Series 2003 Bonds called for redemption of such fact.

Additional Bonds

The Authority may issue Additional Bonds under the terms and conditions of the Trust Indenture, including the prior approval of HUD. All such Additional Bonds shall be secured on a parity basis with the Series 2003 Bonds.

As a condition to the issuance of any series of Additional Bonds, (i) the provisions of Sections 2.4, 2.5 and 2.6 of the Trust Indenture, as applicable, shall have been complied with as of the date of delivery of such Additional Bonds, and (ii) the Authority is required to file with the Trustee, prior to the authentication by the Trustee of such Additional Bonds, the following:

- (a) the written approval by HUD of the issuance of such Additional Bonds;
- (b) a certificate demonstrating that the lesser of (i) the Capital Fund Program moneys received by PHA in the immediately preceding Federal fiscal year, and (ii) the average annual amount of Capital Fund Program moneys received by PHA, as evidenced by Annual Financing Amendments between PHA and HUD under the Capital Fund Program in the three Federal fiscal years immediately preceding the issuance of the Additional Bonds, equals or exceeds an amount equal to three times the aggregate annual Transaction Debt Service on all Bonds, including, the Additional Bonds proposed to be issued; and
- (c) the written consent of the issuer of any financial guaranty insurance policy insuring some or all of the outstanding Bonds.

Parity Provisions

All Additional Bonds issued under the Trust Indenture or any Supplemental Indenture shall be issued on a parity basis with the Series 2003 Bonds and shall be equally and ratably secured by the pledge provided by the Trust Indenture of Capital Fund Allocations. The Authority has reserved the right, without limitation, to issue subordinate debt secured by Capital Fund Allocations with the approval of HUD.

Book-Entry Only System

The Series 2003 Bonds will be issued only as separate, single, authenticated, fully-registered Series 2003 Bonds in denominations of \$5,000 or any integral multiple thereof, in the name of Cede & Co., DTC's partnership nominee ("Cede"), or other securities depository for the Series 2003 Bonds (the "Securities Depository"), as registered owner of the Series 2003 Bonds. For the period from the issuance of the Series 2003 Bonds, so long as the Securities Depository or its nominee is the registered owner of all of the Series 2003 Bonds, one bond certificate for each maturity of the Series 2003 Bonds will be prepared and immobilized in the custody of such Securities Depository. Purchasers of such Series 2003 Bonds (the "Beneficial Owners") will not receive physical delivery of bond certificates, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued. By purchasing a Series 2003 Bond, a Beneficial Owner shall be deemed to have waived the right to receive a bond certificate, except under the circumstances described under this caption "Book-Entry Only." For purposes of this Official Statement (except for purposes of the discussion under "Tax Matters"), so long as all of the Series 2003 Bonds are immobilized in the custody of the Securities Depository, references to Bondowners or owners of the Series 2003 Bonds mean the Securities Depository or its nominee.

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

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

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records in principal amounts of \$5,000 or any integral multiple thereof. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the

transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Participants with DTC are registered in the name of Cede. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Neither the Authority nor the Trustee is responsible or liable for sending transaction statements or for maintaining, supervising or reviewing such records.

The Authority and the Trustee will recognize the Securities Depository or its nominee as the owner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of a maturity of Series 2003 Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede will consent or vote with respect to the Series 2003 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Authority as soon as possible after the record date. The omnibus proxy assigns Cede's consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Series 2003 Bonds will be made to Cede. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee or the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants. A Beneficial Owner may desire to make arrangements with the Direct Participant or the Indirect Participant through which the beneficial ownership interest was purchased to receive a credit balance in the records of such Direct Participant or the Indirect Participant, and may

desire to make arrangements with such Direct Participant or Indirect Participant to have all notices of redemption or other communications to the Direct Participant or Indirect Participant, which may affect such persons, forwarded in writing by such Direct Participant or Indirect Participant and to have notification made of all interest, principal and premium payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2003 BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2003 BONDS, ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE, THE SELECTION BY THE SECURITIES DEPOSITORY OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2003 BONDS, OR OTHER ACTION TAKEN BY THE SECURITIES DEPOSITORY AS BONDOWNER.

DTC may discontinue providing its services as Securities Depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered.

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

SECURITY FOR THE SERIES 2003 BONDS

Capital Fund Allocations

Under the Indenture, the Authority will assign to the Trustee, as security for the payment of the Series 2003 Bonds, all of its right, title and interest in and to: (i) the Capital Fund Allocations assigned to it by PHA to the extent necessary to pay Loan Debt Service, and (ii) all funds held in the Accounts established under the Indenture and investments, if any, thereof and earnings, if any, thereon.

PHA shall execute and deliver, and present to HUD for execution and delivery, as soon as Capital Fund Allocations are legally available and PHA may legally request such moneys, an "Amendment to Consolidated Annual Contributions Contract" directing HUD to pay to the Trustee from Capital Fund Allocations available to PHA in the current fiscal year an amount equal to the aggregate of the deposits and payments required to be made by the Authority pursuant to the Indenture on June 1 and December 1 of the next succeeding calendar year. Such amounts shall be required to be paid to the Trustee no later than three days prior to each Interest Payment Date.

HUD has agreed to forward Capital Fund Allocations directly to the Trustee to the extent necessary to pay Loan Debt Service. In the ACC Financing Amendment, HUD has confirmed that, upon determining the amount of Capital Fund Allocations to be made available to PHA in any fiscal year, HUD will not permit disbursements of such moneys for purposes other than Loan Debt Service and related costs to an extent that would reduce the amounts available for such fiscal year below the amounts scheduled for Loan Debt Service and related costs in such fiscal year. The effect of this confirmation and agreement is that, subject to the availability of appropriations, with respect to the payment of Loan Debt Service, the Trustee will have a first priority claim against all Capital Fund Allocations to be made available to PHA in any fiscal year, and that no expenditures for other projects or purposes can be made by PHA that would reduce delivery of such moneys to the Trustee in the full amount of Loan Debt Service. HUD has further agreed that no subsequent change in the permissible use of Capital Fund Allocations and no administrative sanction regarding PHA will affect the eligibility of expenditures for Loan Debt Service or reduce Capital Fund Allocations to PHA, except as required by law, below the levels needed to pay such Loan Debt Service. See “Capital Fund Program-HUD Approval Letter” and “ACC Financing Amendment” below.

The Capital Fund Allocations received by PHA during the last five Federal fiscal years (October 1 – September 30) are as follows:

<u>Federal Fiscal Year</u>	<u>Grant Amount</u> ⁽¹⁾
1999	\$ 180,542,814
2000	171,073,832
2001	174,877,518
2002	165,463,579
2003	153,788,897 ⁽²⁾

(1) Does not include Replacement Factor Grant amounts.

(2) Preliminary, based upon HUD’s current estimate pending final allocations.

See “Capital Fund Program-History of Modernization Funding” below.

Debt Service Reserve Fund

Under the Indenture, the Authority is required to maintain on deposit in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Fund Requirement, which is an amount equal to the maximum annual debt service requirements on all Series 2003 Bonds Outstanding and payable in any one fiscal year. If at any time for any reason, the funds held in the Debt Service Fund are insufficient to pay when due, the principal of or interest on the Series 2003 Bonds, the Trustee is authorized to withdraw from the Debt Service Reserve Fund to pay principal and interest on the Series 2003 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the issuance of the Series 2003 Bonds are shown below:

Sources:

Principal amount of Series 2003 Bonds.....	\$663,060,000.00
Net premium.....	\$ <u>29,625,236.65</u>
 Total Sources.....	 \$ <u>692,685,236.65</u>

Uses:

Deposit to Loan Account.....	\$606,681,694.64
Deposit to the Debt Service Reserve Fund.....	\$ 51,262,530.00
Deposit to Debt Service Fund (capitalized interest).....	\$ 28,060,245.98
Underwriting discount and legal, printing and other costs of issuance.....	 \$ <u>6,680,766.03</u>
 Total Uses.....	 \$ <u>692,685,236.65</u>

ANNUAL DEBT SERVICE REQUIREMENTS

The debt service requirements of the Authority with respect to the Series 2003 Bonds are shown below:

Federal Fiscal Year (October 1 - September 30)	Principal	Interest	Total Debt Service
2004		\$ 13,466,091	\$ 13,466,091
2005		29,741,060	29,741,060
2006	\$ 21,735,000	29,523,710	51,258,710
2007	22,220,000	29,040,760	51,260,760
2008	22,770,000	28,490,535	51,260,535
2009	23,505,000	27,753,060	51,258,060
2010	24,380,000	26,880,398	51,260,398
2011	25,390,000	25,868,510	51,258,510
2012	26,615,000	24,644,460	51,259,460
2013	27,940,000	23,321,860	51,261,860
2014	29,335,000	21,926,560	51,261,560
2015	30,810,000	20,451,635	51,261,635
2016	32,390,000	18,871,635	51,261,635
2017	34,050,000	17,210,635	51,260,635
2018	35,795,000	15,464,510	51,259,510
2019	37,630,000	13,628,885	51,258,885
2020	39,560,000	11,699,135	51,259,135
2021	41,590,000	9,670,385	51,260,385
2022	43,645,000	7,615,889	51,260,889
2023	45,720,000	5,538,153	51,258,153
2024	47,870,000	3,390,111	51,260,111
2025	50,110,000	1,152,530	51,262,530
Total	663,060,000	405,350,506	1,068,410,506

CAPITAL FUND PROGRAM

Public Housing Program

Public Housing Generally. The public housing program was created by the United States Housing Act of 1937, as amended (42 U.S.C. §1437) (the “1937 Act”), to provide improved housing for low-income households and to stimulate employment in the construction industry during the Great Depression. Under the system established by the 1937 Act, local governments adopted legislation to create public housing authorities. Public housing authorities, such as PHA, develop, own, operate and maintain housing for rental to low-income families (those with incomes at or below 80% of area median income) and very low-income families (those with incomes at or below 50% of area median income). Currently, the 1937 Act requires, generally, that at least 40% of the public housing units of a particular public housing authority which become available in a given year be rented to families with incomes at or below 30% of area median income.

Since 1965, the public housing program has been administered at the Federal level by HUD. Of the almost 1.3 million public housing units in the United States, which are divided among approximately 13,000 developments, nearly 90% were constructed prior to 1975. Average total family income for families in public housing as of December 2000 was \$10,012; 84% of households had incomes below \$15,000. Seventy-eight percent of public housing tenants had annual incomes below 50% of area median income, and of these, almost three-quarters had incomes below 30% of area median income.

Funding. Historically, the Federal Government has paid nearly all of the costs of developing, maintaining, modernizing and operating public housing, to the extent that rents collected from tenants were insufficient for those purposes. Public housing authorities generally financed the construction of public housing by issuing tax-exempt bonds, with respect to which principal and interest payments were guaranteed by the Federal Government through forty-year subsidy contracts known as Annual Contributions Contracts (“ACCs”) with the public housing authorities, or through direct loans from HUD under the ACCs, while property rents paid operating costs. Rents were set at a level sufficient to pay those costs.

Throughout the 1950s and the 1960s, as average tenant incomes in public housing declined, tenants paid an increasing share of income for rent. In response to concerns over rent burdens and the ability of public housing authorities to meet operating costs, the Federal Government, beginning in 1969, made significant changes to the public housing program. Tenant rental payments were limited to 25% of household income, resulting in a substantial reduction in rent receipts for public housing authorities. (The limit on tenant rental payments was increased to 30% of tenant income in 1981.) To offset this loss of income, the Federal Government provided funds to public housing authorities for the operation and maintenance of public housing. These Federal operating subsidies rose from \$75 million in 1970 to more than \$1 billion annually ten years later.

Renovation—Modernization Programs and Funding. The original funding mechanism for public housing construction did not provide funding for a capital replacement reserve or for

modernization. As the public housing stock aged and operating revenues declined, capital replacement and repair needs grew, and as a result, in 1968, HUD and Congress began a series of efforts to fund major repairs and renovation — referred to generally under the term “modernization.” Initially, modernization costs were paid by HUD through the ACCs, either by increasing amounts payable under the original ACC with respect to a project or through a separate contract. In 1980, Congress enacted the Comprehensive Improvement Assistance Program (“CIAP”), which provided modernization funds to public housing authorities through a grant process based on need. After 1986, the Major Reconstruction of Obsolete Projects (“MROP”) program increased modernization funding, targeting the most seriously deteriorated properties. Between 1981 and 1990, more than \$12 billion in CIAP and MROP modernization funding was approved. See Table 2 below.

Modernization funding was increased and the method of funding for large public housing authorities was changed in 1990 with the adoption of the Comprehensive Grant Program (“Comp Grant”). Comp Grant was limited to public housing authorities with more than 250 units and, unlike CIAP, was a formula based program, under which large public housing authorities were assured of receiving capital funding based on their size, modernization needs and replacement needs, among other criteria. The CIAP program continued to serve smaller public housing authorities.

Establishment of the Capital Fund Program

In 1998, Congress passed the Quality Housing and Work Responsibility Act (“QHWRA”), which contained a major revision of the public housing laws. QHWRA amended Section 9 of the 1937 Act to replace the Comp Grant and CIAP programs with a new Capital Fund Program for public housing authorities. Under the Capital Fund Program of QHWRA, public housing authorities receive formula-based capital funding grants from HUD which may be used, among other things, to finance the renovation and modernization of public housing developments. QHWRA also revised the way in which operating subsidies are provided by establishing the public housing Operating Fund.

The amount of Capital Fund and Operating Fund subsidies allocated to each public housing authority is set according to formulas developed by HUD through negotiated rulemaking procedures, taking into account factors provided by the statute. HUD has issued a final rule governing Capital Fund Allocations and an interim rule containing the interim formula for Operating Fund Allocations. The Capital Fund Allocations rule is set forth at 24 C.F.R. Part 905. The Capital Funds, which are allocated annually by HUD based upon annual appropriations from the Congress, represent the major source of funding for modernization and other capital activities at public housing authorities and are the source of the moneys pledged by the Authority for payment of the Series 2003 Bonds.

Capital Fund Authorization and Appropriations by Congress

Under Article I, § 9 of the United States Constitution, the power to appropriate funds to be spent by the Federal Government belongs to the Congress. Typically, when Congress creates a new program such as the Capital Fund Program, it authorizes the expenditure of Federal funds

in the prescribed manner for the stated purposes. This authorizing legislation may limit the amount of money to be spent on a given purpose and/or the period of time in which the program may operate, or it may establish the program permanently and permit the spending of such funds as may be necessary for the legislative purpose. In either such event, in addition to an expenditure of funds being generally authorized by law, the amounts to be spent must also be specifically appropriated by the Congress. Appropriations are typically made in various “Appropriations Acts” that fund the operation of all activities of the Federal Government. Appropriations Acts are normally adopted annually by Congress, as an outcome of the process by which the Executive Branch proposes a budget to Congress and the elements of that budget are negotiated within Congress and between Congress and the President.

Section 519(a) of QHWRA authorized the appropriation of \$3 billion for the Capital Fund for Federal fiscal year 1999, and such sums as may be necessary for Federal fiscal years 2000 through 2003. Although there is no authorization for appropriations under the Capital Fund Program or the Operating Fund after Federal fiscal year 2003, those programs remain in effect and Congress regularly provides appropriations for programs without a specific authorization to appropriate. In Federal fiscal year 2000, the appropriation for the Capital Fund Program was \$2.90 billion; in Federal fiscal year 2001, it was \$2.99 billion; in Federal fiscal year 2002, it was \$2.84 billion; and in Federal fiscal year 2003 it was \$2.73 billion. As of the date hereof, the full House of Representatives and the Senate have each passed Federal fiscal year 2004 appropriation bills, notwithstanding the absence of an authorization for such appropriations. The Conference Committee between the House and the Senate has, as of the date hereof, agreed upon an appropriation of \$2.71 billion for the Capital Fund for Federal fiscal year 2004.

History of Modernization Funding

Appropriations. The amount of funds appropriated by Congress for public housing modernization has varied from year to year. Table 1 below shows such appropriations between 1975 and 2003. The column headed “President’s Budget” reflects the budget formally proposed to the Congress by the President for the public housing modernization programs for the Federal fiscal years listed. The column headed “Enacted Appropriation Utilized” reflects the actual appropriations by the Congress for such programs for the particular Federal fiscal years, adjusted by rescission, carryovers and technical items. Data is not presented for Federal fiscal years prior to 1975, because prior to the enactment of the Budget and Impoundment Control Act of 1974, the means by which such expenditures were expressed were not comparable to those used in subsequent years. Specifically, Presidential Budgets through Federal fiscal year 1975 and Congressional Appropriations Acts through Federal fiscal year 1974 did not calculate “budget authority,” which is the primary measure of Federal spending authority today.

Table 1 — Appropriations for Public Housing Modernization: 1975 — 2003

Federal Fiscal Year	President's Budget	Enacted Appropriation Utilized
1975		\$ 800,000,000 ⁽¹⁾
1976	\$ 800,000,000	421,932,000
1977	420,000,000	721,000,000
1978	735,000,000	838,404,000
1979	750,000,000	997,040,000
1980	750,000,000	999,559,000
1981	1,000,000,000	1,699,186,000
1982	1,500,000,000	1,799,873,000
1983	1,800,000,000	2,476,984,000
1984	1,400,000,000	1,612,750,000
1985	1,550,000,000	1,676,400,000
1986	175,000,000	1,441,020,000
1987	225,000,000	1,437,000,000
1988	1,000,000,000	1,728,000,000
1989	1,000,000,000	1,647,000,000
1990	1,000,000,000	2,030,000,000
1991	1,847,000,000	2,500,000,000
1992	2,267,000,000	2,801,000,000
1993	2,292,000,000	3,100,000,000
1994	3,100,000,000	3,230,000,000
1995	2,786,000,000	2,885,000,000
1996	4,884,000,000	2,500,000,000
1997	2,407,000,000	2,500,000,000
1998	2,400,000,000	2,500,000,000
1999	2,550,000,000	3,000,000,000
2000	2,555,000,000	2,900,000,000
2001	2,955,000,000	2,993,000,000
2002	2,293,000,000	2,843,400,000
2003	2,426,000,000	2,730,000,000
2004	2,641,000,000	-- ⁽²⁾

Source: HUD Office of Public and Indian Housing, Office of the Budget.

- (1) The actual amount appropriated for FY 1975 was \$1,577,040,000; however, all but \$800 million represented a “catch-up appropriation” for the preceding Federal fiscal year.
- (2) As of the date hereof, the House-Senate Conference Committee has agreed upon an appropriation of \$2.712 billion for FY 2004.

Allocations of Modernization Funds by HUD. Once Congress has appropriated funds for modernization, HUD is responsible for allocating those funds among the public housing authorities. The following table shows total annual HUD allocations to public housing authorities for the different modernization programs from 1968 to 2002. The categories of expenditure relate to the various funding methods and programs discussed at “Public Housing Program—Renovation—Modernization Programs and Funding” above. “Extended Amortization” refers to the period in which modernization was paid for through amendments to existing ACCs, and assumes equal distribution of the amounts over the period. “20-Year Mod Program” refers to the period in which modernization was funded through separate 20-year ACCs. The acronyms “CIAP,” “MROP” and “CFP” refer, respectively, to the Comprehensive Improvement Assistance Program, the Major Reconstruction of Obsolete Projects Program and the Capital Fund Program. Amounts allocated by HUD for modernization in a year (beginning with Federal fiscal year 1987) may vary from the appropriation figure for such year, as shown in Table 1, because of timing and technical reasons.

Table 2 — HUD Allocations for Public Housing Modernization: 1968 — 2002

Federal Fiscal Year	Extended Amortization	20-Year MOD Program	CIAP/MROP	Comp Grant	CFP	Annual Total
1968	\$ 106,880,000					\$ 106,880,000
1969	106,880,000					106,880,000
1970	106,880,000					106,880,000
1971	106,880,000					106,880,000
1972	106,880,000					106,880,000
1973	106,880,000					106,880,000
1974	106,880,000					106,880,000
1975	106,880,000	\$ 420,336,419				527,216,419
1976	106,880,000	217,558,855				324,438,855
1977	106,880,000	352,668,540				459,548,540
1978	106,880,000	454,960,519				561,840,519
1979		550,629,284				550,629,284
1980		552,040,232				552,040,232
1981			\$ 900,182,577			900,182,577
1982			870,592,954			870,592,954
1983			1,245,600,798			1,245,600,798
1984			785,036,156			785,036,156
1985			822,897,921			822,897,921
1986			754,509,388			754,509,388
1987			1,516,889,551			1,516,889,551 ⁽¹⁾
1988			1,680,561,427			1,680,561,427
1989			1,644,712,554			1,644,712,554
1990			1,967,541,173			1,967,541,173
1991			2,491,746,779			2,491,746,779
1992			551,888,392	\$2,017,312,508		2,569,200,900
1993			338,826,806	2,605,819,065		2,944,645,871
1994			317,645,448	2,721,552,741		3,039,198,189
1995			300,911,690	2,597,146,155		2,898,057,845
1996			296,492,293	2,200,036,976		2,496,529,269
1997			322,063,915	2,082,200,443		2,404,264,358
1998			304,664,477	2,121,002,666		2,425,667,143
1999			356,289,781	2,448,714,883		2,805,004,664
2000					\$2,766,251,218	2,766,251,218
2001					2,876,138,906	2,876,138,906
2002					2,460,258,137	2,460,258,137

Source: HUD Office of Public and Indian Housing, Office of the Budget.

- (1) Beginning with Federal fiscal year 1987, HUD changed the manner in which it accounted for allocations of modernization funds to public housing authorities. Previously, HUD calculated allocations to public housing authorities in terms that did not relate directly to Congressional appropriations for the particular Federal fiscal year in which an actual commitment of funds was made. The pre-fiscal year 1987 amounts in Table 2 are not comparable either to amounts for corresponding years in Table 1 or to later amounts in Table 2. The tables, although different, show the trends in modernization funding. In 1987, under new legislative authority, HUD began accounting for modernization expenditures by means of “capital cost” or “grant” levels, directly comparable to the means by which funds were appropriated.

Withholding of Capital Funds; Recapture of Capital Funds

The 1937 Act requires public housing authorities to obligate for expenditure at least 90% of its allocation of Capital Funds within 24 months of the date such funds become available to

the public housing authority (or of the date on which adequate funds to undertake modernization, substantial rehabilitation or new construction are accumulated). A public housing authority cannot be awarded Capital Funds for any month during a fiscal year in which such public housing authority has unobligated Capital Funds from prior fiscal years in violation of the 24-month requirement. However, if a public housing authority cures its failure to obligate the previously allocated Capital Funds within such fiscal year, Capital Funds will be made available to the public housing authority proportionally with respect to the number of months remaining in such fiscal year.

The Secretary of HUD may grant extensions to a public housing authority giving it more time to obligate its Capital Funds. The Secretary may extend the applicable period for up to 12 months based on the size of a public housing authority, the complexity of its Capital Funds program, any limitation on the public housing authority's ability to obligate Capital Funds as a result of state or local law, or for any other reason determined by the Secretary to be relevant. In addition, the Secretary may grant an extension for such period as the Secretary determines to be necessary if the Secretary determines that the failure to timely obligate the Capital Funds is due to litigation, obtaining approvals from the Federal, state or local government, complying with environmental assessment and abatement requirements, relocating residents, or an event beyond the control of the public housing authority, or for any other reason established by the Secretary pursuant to a notice published in the Federal Register.

In addition to the obligation requirement discussed above, public housing authorities are required to expend Capital Funds within four years of the date on which such funds become available to the public housing authority for obligation. Failure to do so may result in recapture of the funds upon action by the Secretary of HUD.

The withholding or recapture of Capital Funds are described in more detail in "Risks to the Bondholders" below.

HUD Approval Letter

The following summary of the HUD Approval Letter is qualified in its entirety by reference to the actual text of the form of the letter attached as Appendix C. Pursuant to the HUD Approval Letter, HUD has approved the issuance of the Series 2003 Bonds subject to certain conditions, and, in addition, has addressed the following matters, among others:

- HUD's approval of (i) the issuance of the Series 2003 Bonds pursuant to the Indenture, (ii) the making of the Loan pursuant to the Loan Agreement in substantially the form submitted, and (iii) the making of GDB Loans pursuant to the GDB Project Loan Agreement in substantially the form submitted. Any substantive changes to the form of the Indenture, the Loan Agreement or the GDB Project Loan Agreement that affects HUD's rights or obligations shall be submitted to HUD for review and approval. Except as stated, no further approval of the Indenture, Loan Agreement or GDB Project Loan Agreement by HUD shall be required.

- HUD’s approval of (i) the estimated debt service schedule with respect to the Loan, subject to the requirement that, unless approved by HUD, the final debt service schedule shall not exceed the estimated debt service schedule in any year by more than 10%, and (ii) the maximum amount of the loan that can be made under the GDB Project Loan Agreement, as well as the applicable interest rate and other terms of such loan thereunder.
- HUD’s statement that the Authority constitutes a “public housing agency” within the meaning of section 3(b)(6) of the 1937 Act and that the Series 2003 Bonds constitute housing program obligations issued by a public housing agency in connection with low-income housing projects as described in section 11(b) of the 1937 Act. The provisions of 26 U.S.C. § 149(c)(2)(C)(iii) state that the interest on such obligations shall not be exempt from taxation under section 11(b) unless issued before June 19, 1984, and the provisions of 26 U.S.C. § 149(c)(1) state that any exemption of income on bonds from taxation, unless otherwise excepted, must derive from the Internal Revenue Code. HUD offers no opinion on the tax status of such bonds.
- HUD’s agreement, subject to the availability of appropriations, to make payments needed for Loan Debt Service automatically and directly to the Trustee for the benefit of PHA. HUD will establish a system of direct payment, through LOCCS, to the Trustee.
- HUD’s agreement, subject to the availability of appropriations, to permit payments needed for GDB Debt Service to be made (a) directly to the Government Development Bank for the benefit of PHA and (b) from the proceeds of the Series 2003 Bonds funding the Loan, all in accordance with the GDB Project Loan Agreement.
- HUD’s agreement that amounts paid to the Trustee to make Loan Debt Service payments and to the Government Development Bank to pay GDB Debt Service are authorized and under current law are not subject to recapture, and that no regulatory waiver is necessary to disclaim effectively any right, title and interest of the United States in and to such amounts. Nothing in this paragraph shall prevent HUD from recapturing funds from PHA (as opposed to the Authority or the Trustee) in accordance with applicable law.
- HUD’s agreement that interest earned on amounts paid to the Trustee to make Transaction Debt Service payments may be applied to Transaction Debt Service and need not be returned to HUD. In addition, HUD determines that no regulatory waiver is necessary to permit such use.
- HUD’s statement that nothing in the HUD Approval Letter is intended to diminish HUD’s authority to administer, monitor, and regulate the public housing program, including HUD’s authority to exercise any administrative sanction provided by law; subject to HUD’s agreement that no subsequent change in the permissible

use of Capital Fund Allocations and no administrative sanction regarding PHA would affect the eligibility of expenditures for Transaction Debt Service or reduce Capital Fund Allocations to PHA, except as required by law, below the levels needed to pay Transaction Debt Service.

- HUD's agreement that to the extent that Capital Fund Allocations to PHA are reduced or recaptured because previous Capital Fund Allocations to PHA remain unobligated or unexpended in violation of Section 9(j)(1) or (5)(A) of the 1937 Act (or any successor(s) thereto), (i) unless otherwise prohibited by law, any unobligated Capital Fund Allocations that are available to PHA shall be used, on a first priority basis, to the extent necessary, to pay Transaction Debt Service and (ii) to the extent permitted or provided by law, the recapture or application of all funds unobligated or unexpended in violation of said provisions of Section 9(j) shall serve to cure such violation(s).
- HUD's statement that the pledge and assignment of "Revenues" under the Indenture and of Capital Fund Allocations payable (a) to PHA under the Loan Agreement and (b) to the Government Development Bank under the GDB Project Loan Agreement are authorized for the purpose of securing the payment of principal of and interest on the Loan and the Series 2003 Bonds, and principal and interest owing to Government Development Bank.
- HUD's waiver of any additional notice or consent required under the Federal Assignment of Claims Act.
- HUD's statement that the Series 2003 Bonds are not obligations of or guaranteed by HUD or the United States of America.
- HUD's statement that the Series 2003 Bonds may not be issued until HUD has approved PHA's current Annual and 5-Year Plans, amended to reflect the redevelopment activities funded by the proceeds of the Series 2003 Bonds and use of Capital Fund Allocations to pay Loan Debt Service.
- HUD's statement that its approval is conditioned on the receipt from Government Development Bank, prior to issuance of the Series 2003 Bonds, of a fairness opinion of the proposed bond structure in the form of a resolution approving the proposed bond issuance.
- HUD's statement that its approval is further conditioned upon HUD's approval, prior to issuance of the Series 2003 Bonds, of PHA's contract to purchase bond insurance from a qualified bond surety provider, if such insurance is obtained.
- HUD's agreement that, upon issuance of the Series 2003 Bonds, HUD will enter into an ACC Financing Amendment with PHA, incorporating various agreements and undertakings by HUD and PHA, and HUD's statement that the Authority shall be authorized to rely upon and enforce all such agreements and undertakings contained in the ACC Financing Amendment.

- HUD's agreement that Government Development Bank, while maintaining an oversight involvement pursuant to the terms of the Loan Agreement, may sell or participate to another public or private entity its obligation to make loans for purposes of the Loan Agreement during GDB Loan Funding Periods (as defined in the Loan Agreement) under the terms of the GDB Project Loan Agreement.

ACC Financing Amendment

The following summary of the form of the ACC Financing Amendment is qualified in its entirety by reference to the actual text of the form of the amendment, which is appended hereto as Appendix D. Pursuant to the ACC Financing Amendment, HUD and PHA have agreed, among other things, as follows:

- Amounts payable by HUD pursuant to the Capital Fund Program (and any successor program for funding modernization needs) and pledged to the payment of Transaction Debt Service shall be used exclusively for payment of Transaction Debt Service and related purposes approved by HUD, and shall not be available for any other purpose, including but not limited to, (a) the repayment of any loans to PHA by HUD pursuant to Section 4 of the 1937 Act, or (b) the repayment of any notes or bonds other than the Series 2003 Bonds.
- The Series 2003 Bonds do not constitute a debt or liability of HUD or the United States, the full faith and credit of the United States is not pledged to the payment of Transaction Debt Service, and the payment of Transaction Debt Service is not guaranteed by HUD or the United States.
- Nothing in the ACC Financing Amendment is intended to diminish HUD's authority to administer, monitor, and regulate the public housing program, including HUD's authority to exercise any administrative sanction or remedy provided by law; provided, however, that except as required by law, HUD will not assert any claim or right under the ACC, including the exercise of administrative sanctions and remedies, if and to the extent that the effect of such claim or right would be to reduce the payment of Capital Fund Allocations to PHA below the level necessary to pay Transaction Debt Service or delay the time for payment of such moneys such that required amounts would not be available to pay Transaction Debt Service when due. In the event that HUD shall determine to impose administrative sanctions upon PHA which would have the effect of reducing the payment of Capital Fund Allocations to PHA in any year by at least 20%, HUD shall have the right (in addition to all other rights and remedies available to HUD), while such sanctions remain in effect, to require that unexpended proceeds of the Loan (except for amounts already obligated or encumbered for the payment of project costs or required for a debt service reserve or other structural purposes of such issue(s)) be applied, at the earliest permissible date, to redeem outstanding Series 2003 Bonds.

- Payment of Transaction Debt Service is a permissible use of Capital Fund Allocations. Once the making of the Loan, the issuance of Series 2003 Bonds and the execution of the GDB Project Loan Agreement have been approved by HUD, no further approval shall be required for payment of Transaction Debt Service (including any additional Loan that may be subsequently approved by HUD) with Capital Fund Allocations available to PHA.
- The adoption of an ACC Financing Amendment does not supersede or preclude the adoption of annual Capital Fund Allocations plans and additional ACC Financing Amendments; provided, however, that if in any fiscal year, (i) the applicable annual Capital Fund Allocations plan shall not have been approved by HUD, or (ii) the ACC Financing Amendment shall not have been executed, in either case by the later of (i) October 1 of the first year following the end of the applicable Federal fiscal year with respect to which such funds were appropriated, or (ii) 60 days prior to the first scheduled Loan Debt Service payment following such October 1, HUD agrees, subject to the availability of appropriations, to approve immediately upon receipt from PHA (subject to any legal requirements or constraints applicable at the time), an annual Capital Fund Allocations plan and/or ACC Financing Amendment to the extent and in an amount sufficient to make the applicable Transaction Debt Service payment.
- Subject to the availability of appropriations and approval of the annual Capital Fund Allocations plan and ACC Financing Amendment, HUD will make Capital Fund Allocations automatically and directly available to the Trustee in accordance with the approved debt service schedule, to the extent required for payment of Loan Debt Service. Such direct payment shall be implemented by whatever means are available to HUD at the applicable time, but in any event, the Trustee shall be able to receive, based upon the direction of PHA pursuant to and as embodied in the ACC Financing Amendment, the necessary amounts without the need for payment to flow through PHA.
- Amounts requisitioned by or payable to the Trustee for Loan Debt Service shall not be paid earlier than three business days prior to the date upon which they are required to make such payment. HUD agrees that, upon determining the amount of Capital Fund Allocations available to PHA in any fiscal year, it will not permit disbursements of such moneys for purposes other than Loan Debt Service and related costs to an extent that would reduce the amounts available for such fiscal year below the amounts scheduled for Loan Debt Service and related costs in such fiscal year.
- The proceeds of the Series 2003 Bonds, the Loan and the GDB Loan may be expended only for purposes for which Capital Fund Allocations may be expended. PHA shall provide for the application of the proceeds of the Loan and the GDB Loan (in such detail as shall be reasonably required by HUD) in its annual and 5-year Capital Fund Allocations plans. All such uses of proceeds shall be subject to HUD approval (as part of HUD's approval of PHA's annual plan) and PHA shall report to HUD annually with respect to such expenditures in the same manner as it accounts for the expenditure of Capital Fund Allocations.

- If the Authority shall issue Additional Bonds for the purpose of funding loans to PHA, HUD agrees that it will enter into an amendment to the ACC Financing Amendment or a new such amendment substantially similar to the ACC Financing Amendment (reflecting, as appropriate, any changes in law or the Capital Fund Program) in order to permit application of Capital Fund Allocations to pay debt service on any such Additional Bonds and such increase in the Loan or such additional loan, as well as debt service on the GDB Loan made in connection therewith, in a manner comparable to and with a priority equal to payments of Transaction Debt Service, provided that (i) HUD shall have approved the issuance of any such Additional Bonds and the making of any such loan or increase in the Loan, and (ii) the total debt service attributable to the Loan as increased, and any additional loan shall not exceed 33 1/3% of the annual Capital Fund Allocations which PHA may reasonably expect to receive.
- HUD and PHA agree that as between Loan Debt Service and GDB Debt Service, Loan Debt Service shall have priority.

RISKS TO THE BONDHOLDERS

The factors discussed below should be considered in evaluating the ability of the Authority to make payments in amounts sufficient to provide for payment of the principal of, premium, if any, and interest on the Series 2003 Bonds. This discussion of the risk factors involved in purchasing and owning the Series 2003 Bonds is not, and is not intended to be, exhaustive.

General

The Series 2003 Bonds will be limited obligations of the Authority and except to the extent payable from Series 2003 Bond proceeds, will be payable solely from (i) Capital Fund Allocations received by the Trustee from HUD, and (ii) other funds available for that purposes under the Indenture. The Series 2003 Bonds will not constitute an indebtedness or an obligation of the Commonwealth or any other governmental instrumentality or political subdivision thereof. The Authority has no taxing power.

The ability of the Authority to make payments in amounts sufficient to provide for payment of the principal of, premium, if any, and interest on the Series 2003 Bonds could be adversely affected by the occurrence of certain events, including, without limitation, the events and circumstances described below.

Delay, Reduction or Elimination of Appropriations

The primary security for the Series 2003 Bonds is a first priority claim in annual Capital Fund Allocations to be received from HUD. National appropriations must be determined by

Congress each year. There can be no assurance that Congress will reauthorize the expenditure of Capital Funds, maintain appropriations for the Capital Fund Program at levels sufficient to assure payment of the Series 2003 Bonds or make a specific year's appropriation under the Capital Fund Program in a timely manner.

A decrease in the level of appropriated funds by Congress to HUD or a delay in appropriations could have a material adverse effect on the Authority's ability to pay debt service on the Series 2003 Bonds.

Termination of Capital Fund Program

As described above under "Capital Fund Program", the funding authorization for the Capital Fund Program expired at the end of Federal fiscal year 2003. As is discussed above under "Capital Fund Program—Public Housing Program—*Renovation—Modernization Programs and Funding*", HUD and the Congress have provided assistance to housing authorities for modernization and other capital activities in a variety of forms. There can be no assurance that the Congress will maintain the Capital Fund Program in its present form or reauthorize the expenditure of funds thereunder. Although PHA has pledged to the Trustee amounts received under any successor to the Capital Funds Program, there can be no assurance that, upon discontinuation or termination of the Capital Fund Program, a substantially similar program will be established by the Congress in lieu of the Capital Fund Program or that amounts provided under any such successor will be comparable to those provided under the Capital Fund Program. Accordingly, a discontinuation or termination of the Capital Fund Program could result in decreased funding by HUD to PHA for capital needs and could have a material adverse effect on the Series 2003 Bonds.

Change in Allocation Formula

As described above under the caption "Capital Fund Program", HUD allocates amounts to housing authorities under the Capital Fund Program on the basis of a formula authorized by law (the "Capital Funds Formula"). HUD has previously allocated amounts to housing authorities under predecessor programs for the modernization of public housing by formula or upon such other bases as were established by Congress with respect to the particular program. There can be no assurance that Congress will not change the basis upon which moneys will be allocated to housing authorities (including PHA) under the Capital Fund Program (or any successor thereto). There can be no assurance that HUD will not make technical or fundamental changes to the Capital Funds Formula. A change in the Capital Funds Formula or basis upon which amounts under the Capital Fund Program (or any successor thereto) are allocated to housing authorities could decrease the amount of such funds allocated by HUD to PHA and could, therefore, have a material adverse effect on the Authority's ability to pay debt service on the Series 2003 Bonds.

Other Changes in Law or Regulations

There can be no assurance that the laws and regulations presently applicable to the Capital Fund Program will not be rescinded, revised or supplemented in such a way as to have a material adverse effect on the Authority's ability to pay debt service on the Series 2003 Bonds.

HUD Administrative Sanctions

The Capital Fund Program and the public housing program generally operate under a series of regulations and requirements prescribed by the 1937 Act and by HUD pursuant to its administrative authority over those programs. Various sanctions may be imposed upon housing authorities which violate HUD program requirements, including, under specified circumstances, the withholding of funds to which a public housing authority might otherwise be entitled. The statute provides for various extensions and exceptions which would avoid the withholding of assistance in particular cases. HUD regulations permit withholding of assistance in other circumstances, as well. In addition, there can be no assurance that HUD and Congress will not impose additional conditions upon the receipt of assistance pursuant to the Capital Fund Program or any successor, with which PHA may be unable to comply. See "Risks to the Bondholders – Withholding of Capital Funds; Recapture of Capital Funds" below.

Pursuant to the 1937 Act and contracts entered into by HUD and public housing authorities throughout the country, in the event of a substantial default in the performance of the obligations of a public housing authority thereunder, HUD is entitled to pursue a wide range of administrative sanctions and remedies, including requiring possession of a public housing authority's assets to be transferred to HUD and the "taking over" of full management and operational control from such authority. PHA has covenanted to comply with the requirements of the Capital Fund Program.

HUD has agreed that, except as required by law, it will not assert any claim or right under the ACC, including the exercise of administrative sanctions and remedies, if and to the extent that the effect of such claim or right would be to reduce the payment of Capital Funds to PHA below the level necessary to pay Loan Debt Service or delay the time for payment of such moneys such that the required amounts would not be available to pay Loan Debt Service when due.

HUD Directed Redemption

The ACC Financing Amendment provides, among other things, that in the event HUD shall determine to impose administrative sanctions upon PHA which would have the effect of reducing the payment of Capital Fund Allocations to PHA in any year by at least 20%, HUD shall have the right to require that unexpended proceeds of the Series 2003 Bonds (except for amounts already obligated or encumbered for the payment of project costs or required for a debt service reserve) be applied, at the earliest permissible date to the optional redemption of the Series 2003 Bonds. See "Redemption Provisions – Special Optional Redemption" above.

No Obligation of HUD

HUD has no obligation with respect to the Series 2003 Bonds. The Series 2003 Bonds are secured solely by the Trust Estate, which is comprised of (i) Capital Fund Allocations once received, and (ii) other funds available for that purposes under the Indenture. In particular, and without limitation, HUD has no obligation to accelerate Capital Fund Allocations or increase the amount of Capital Fund Allocations pledged to Loan Debt Service in the event of a default under the Series 2003 Bonds.

Redemption for Projects not On Schedule or On Budget

The failure of a Project to be completed On Schedule and On Budget by its scheduled completion date may result in the redemption of Series 2003 Bonds at the option of the Authority, at par from available amounts under the Indenture, including unused proceeds of the Series 2003 Bonds, allocable to such Project.

Withholding of Capital Funds; Recapture of Capital Funds

The Secretary of HUD (i) is required to withhold Capital Funds that would otherwise be allocated to a public housing authority if the public housing authority fails to *obligate* its Capital Funds within the time period required by the 1937 Act and (ii) may recapture obligated Capital Funds that are not *expended* within the time period required by the 1937 Act, as such periods may be extended by the Secretary of HUD. See “Capital Fund Program—Withholding of Capital Funds; Recapture of Capital Funds” above.

In addition to the withholding and recapture remedies provided by the 1937 Act, the Fiscal Year 2003 Consolidated Appropriations Act (Pub. L. 108-7) (the “2003 Appropriations Act”) directs HUD to recapture any Capital Funds made available for the fiscal years 1999 through 2003 that remain unobligated within the time period required by the 1937 Act (24 months from the time the funds become available to a public housing authority, subject to extensions). This provision thus directs HUD to exercise two remedies to address a failure by a public housing authority to timely obligate Capital Funds — the recapture of prior-year Capital Funds that are not timely obligated and the withholding of the then-current year's Capital Funds until the public housing authority comes into compliance. The direction to exercise both remedies is reflected only in the 2003 Appropriations Act.

Any such withholding or recapture may have a materially adverse effect on PHA’s ability to pay Transaction Debt Service. The likelihood of any potential withholding or recapture of Capital Funds adversely affecting PHA’s ability to pay Transaction Debt Service is reduced by a number of factors, including:

1. The Secretary of HUD may grant extensions of time to obligate for a wide variety of reasons.

2. Unobligated amounts are disregarded if they do not exceed 10% of the original amount made available.
3. If a public housing authority cures its failure to obligate a prior year's Capital Funds, the public housing authority shall receive for the then-current fiscal year a share equal to its original share multiplied by a fraction equal to the number of months remaining in the year subsequent to the month in which the cure occurred, divided by 12.
4. Loan Debt Service for PHA is equal to not more than one-third of its Capital Fund Allocation for 2003.
5. HUD has agreed that Transaction Debt Service may be paid from any Capital Fund Allocations, including any unobligated funds. Accordingly, to the extent that the withholding of a particular year's allocation of Capital Funds is due to the presence of unobligated funds in violation of the 1937 Act's obligation deadlines, those earlier unobligated funds would be available to enable PHA to pay Transaction Debt Service. Such payment would also help to cure the condition giving rise to the withholding of Capital Funds.
6. If unobligated Capital Funds remaining from prior fiscal years are insufficient fully to pay Loan Debt Service in a particular year and the application of such funds comes too late in the year to permit receipt of sufficient Capital Funds in the current year to permit full payment of debt service with such current amounts, the Debt Service Reserve Account may be used to pay Loan Debt Service. Full application of amounts remaining unobligated from prior years to Loan Debt Service would enable PHA to receive a full allocation of Capital Funds for the subsequent fiscal year, enabling it to restore its Debt Service Reserve Account and pay current Loan Debt Service.
7. Loan Debt Service once paid cannot be recaptured because such amounts are obligated and expended on a current, ongoing basis.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, (a) assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2003 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative

minimum tax imposed on such corporations, and (b) the Series 2003 Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and PHA in connection with the Series 2003 Bonds, and Bond Counsel has assumed compliance by the Authority and PHA with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2003 Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2003 Bonds. Bond Counsel renders its opinion under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2003 Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code imposes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2003 Bonds in order that interest on the Series 2003 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2003 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2003 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and PHA have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2003 Bonds from gross income under Section 103 of the Code. The Authority and PHA will each deliver its Tax Certificate concurrently with the issuance of the Series 2003 Bonds which will contain provisions relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such covenant, the remedies available to the Authority, PHA or the owners of the Series 2003 Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series 2003 Bonds for Federal income tax purposes.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain general Federal income tax matters with respect to the Series 2003 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2003 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax

advisors regarding the Federal tax consequences of owning and disposing of the Series 2003 Bonds.

Prospective owners of the Series 2003 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2003 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2003 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2003 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2003 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2003 Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2003 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2003 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2003 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2003 Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2003 Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Government Action

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated or concluded by the Internal Revenue Service after the issuance of the Series 2003 Bonds involving either the Series 2003 Bonds or other tax-exempt bonds will not have an adverse effect on the tax-exempt status or market price of the Series 2003 Bonds.

UNDERWRITING

The Underwriters have agreed, jointly and severally, to purchase the Series 2003 Bonds at the initial offering prices set forth or derived from information set forth on the inside cover page of this Official Statement. The Underwriters will receive compensation as underwriters in the form of an underwriters’ discount equal to \$4,547,973.03. The Purchase Contract with respect to the Series 2003 Bonds provides that the Underwriters will purchase the Series 2003 Bonds, subject to fulfillment by the Authority and PHA of certain terms and conditions set forth in the Purchase Contract, including the receipt of certain legal opinions. In the Purchase Contract, the Authority has agreed to indemnify the Underwriters, to the extent permitted by law, against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that the Underwriters may be required to make in respect thereof. The initial public offering prices of the Series 2003 Bonds may be changed, from time to time, by the Underwriters. The Purchase Contract provides that the Underwriters may offer and sell the

Series 2003 Bonds to certain dealers (including dealers depositing the Series 2003 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the public offering prices stated on the inside cover page.

Certain national underwriting firms have entered into written agreements with local Commonwealth-based underwriting firms pursuant to which the local firm has agreed to provide investment banking services to the national firm in connection with the national firm's provision of underwriting and investment banking services to the Authority with respect to the Series 2003 Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, the local firm will be entitled to receive a portion of the national firm's actual net profits, if any, in connection with the underwriting of the Series 2003 Bonds. Such agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Lehman Brothers Inc. and Santander Securities Corporation; Banc of America Securities LLC and Oriental Financial Services Corporation; J.P. Morgan Securities Inc. and R-G Investments Corporation; Merrill Lynch, Pierce, Fenner & Smith Incorporated and BBVA Capital Markets of Puerto Rico; Morgan Stanley & Co. Incorporated and Popular Securities, Inc.; Wachovia Bank, National Association and Doral Securities, Inc.; and Goldman, Sachs & Co. and FirstBank Puerto Rico.

LEGAL INVESTMENT

The Series 2003 Bonds will be eligible for deposit by banks in the Commonwealth to secure public funds and will be approved investments for insurance companies to qualify them to do business in the Commonwealth, as required by law.

LITIGATION

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the Series 2003 Bonds or in any way contesting or affecting the validity of the Series 2003 Bonds, the resolutions or other proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the pledge or application of any moneys under the Indenture or the existence or powers of the Authority.

LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2003 Bonds are subject to the approval of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority. The issuance of the Series 2003 Bonds is conditioned upon the delivery on the date of issuance of the approving opinion of Bond Counsel in substantially the form attached to this Official Statement as Appendix E. Certain legal matters will be passed upon for the Underwriters by their counsel, O'Neill & Borges, San Juan, Puerto Rico. Certain legal matters will be passed upon for PHA by its counsel, Patton Boggs LLP, Washington, D.C.

RATINGS

It is a condition to the purchase of the Series 2003 Bonds by the Underwriters that they be rated “Aa3” by Moody’s Investors Service and “AA” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies. There is no assurance that any such rating will continue for any period of time or that any such rating will not be revised or withdrawn entirely by Moody’s Investments Service or Standard & Poor’s Rating Services if, in their judgment, circumstances so warrant. A securities rating is not a recommendation to buy, sell, or hold securities. Each security rating should be evaluated independently of any other security rating.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), the Authority, PHA and the Trustee will enter into a master written agreement for the benefit of the owners of all Bonds issued from time to time under the Indenture (the “Disclosure Agreement”) to provide continuing disclosure. Pursuant to the Disclosure Agreement, PHA will undertake to provide annually, on or before 305 days after the end of each Federal fiscal year, commencing with the Federal fiscal year in which the Series 2003 Bonds are issued, to each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (each a “Repository”), and, if and when one is established, a state information depository for the Commonwealth of Puerto Rico (the “State Information Depository”), certain financial information and other operating data with respect to PHA (collectively, the “Annual Information”), as follows:

- The level of Capital Fund Allocations to PHA by HUD.
- The amount of unobligated Capital Funds for the three most recent Federal fiscal years.
- The amount of unexpended Capital Funds for the five most recent Federal fiscal years.
- Changes in the Capital Fund Program materially affecting the level of funding to PHA.
- Statutory or regulatory changes in the Capital Fund formula materially affecting the level of funding to PHA.
- Any material change in direct payment of debt service funds for payment of the Series 2003 Bonds to the Trustee.
- An update of the information contained herein under the headings “Puerto Rico Public Housing Administration” and “Capital Fund Program”.

In addition, PHA will undertake in the Disclosure Agreement, for the benefit of the owners of the Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board (“MSRB”), and to the State Information Depository, in a timely manner, the notices required to be provided by Rule 15c2-12.

The notices required to be provided by Rule 15c2-12, which PHA will undertake to provide as described above, include notices of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modification to the rights of owners of Bonds; (8) Bond calls, other than mandatory sinking fund redemptions; (9) defeasances of all or a portion of the Bonds; (10) the release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes; and to each Repository or to the MSRB and to the State Information Depository, in a timely manner, notice of a failure by PHA to provide the Annual Information required by the Disclosure Agreement.

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions (Section 1.1)

The Indenture defines certain terms, including the following:

“Account” means any of the trust funds and accounts created and established by, or pursuant to, the Indenture.

“Act” means Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, as affected by Act No. 103 of the Legislature of Puerto Rico, approved August 11, 2001, and Act No. 107 of the Legislature of Puerto Rico, approved July 31, 2002, as amended from time to time.

“Annual Debt Service Requirement” means, with respect to any Bond Year, the aggregate of the Interest Requirement and the Principal Requirement for such Bond Year.

“Banking Day” means a day when banking institutions in the Commonwealth are not required or authorized to remain closed.

“Beneficial Owner” means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

“Bond Counsel’s Opinion” means an opinion signed by Hawkins, Delafield & Wood or any other attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Authority.

“Bond Insurance Policy” means any municipal bond new issue insurance policy insuring and guaranteeing the payment of the principal of and interest on a Series of Bonds or certain maturities to the Indenture, and all payments of the Authority under a Qualified Hedge Agreement, when due, relating to such Series or such maturities, as may be provided in the Supplemental Indenture authorizing such Series.

“Bond Insurer” means any Person that issues a Bond Insurance Policy with respect to a Series of Bonds.

“Bond Payment Date” means the date specified in any Supplemental Indenture for payment of principal of or interest on the Bonds.

“*Bond Year*” means, with respect to the Bonds, the initial period beginning on December 18, 2003 and terminating on November 30, 2004, and thereafter each period of twelve (12) consecutive months beginning on December 1 and terminating on November 30.

“*Bondholder*” means when used with reference to a Bond, any Person who shall be the registered owner of any Outstanding Bond as set forth on the registration books maintained by the Registrar.

“*Business Day*” means a day of the year, except (a) a Saturday or Sunday, (b) days on which banks located in the city in which the Designated Corporate Trust Office of the Trustee is located, in the city in which the principal office of any Paying Agent, Credit Facility Provider or Hedge Provider pursuant to a Supplemental Indenture is located, or in the city in which the principal office of a remarketing agent or tender agent, as appointed by a Supplemental Indenture, is located, are required or authorized to remain closed, or (c) any day on which the New York Stock Exchange is closed.

“*Calendar Year*” means the period commencing on January 1 of each year and terminating on the next succeeding December 31.

“*Capital Fund Financing Amendment*” means the Capital Fund Financing Amendment to the Consolidated Annual Contributions Contract between the PHA and HUD, which authorizes the transfer to the Trustee of the necessary Capital Fund Program monies for Loan Debt Service or GDB Loan Debt Service, as applicable.

“*Capital Fund Program*” means the federal housing assistance program established by Section 9(d) of the United States Housing Act of 1937, as amended (42 U.S.C. §1437g(d)), together with all successor or replacement federal programs pursuant to which the PHA receives funds for the purpose of development, financing, modernization or otherwise in connection with the capital costs of public housing projects and the other purposes specifically set forth in said Section 9(d), including, without limitation, any program under which the PHA receives funds that may be used for capital costs through a tenant-based assistance program.

“*Cash Equivalent*” means a letter of credit, insurance policy, surety, guarantee or other security arrangement provided by an institution which has received a rating of its claims paying ability from each of the Rating Agencies at least equal to the then existing respective rating on the Bonds or whose unsecured debt securities are rated at least the then existing respective rating on the Bonds (or the highest rating of short-term obligations if the Cash Equivalent is a short-term instrument) by the Rating Agencies.

“*Cash Flow Statement*” means a certificate prepared by or on behalf of the Issuer with respect to Cash Flows setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then outstanding, (i) all amounts expected to be received by the Trustee under the Loan Agreements during such period; (ii) the application of all Revenues in accordance with the Indenture; (iii) the resulting balances on each Bond Payment Date and payment date with respect to all Qualified Hedge Agreements, including earnings in all Accounts resulting from reinvestment of existing balances (to the extent such earnings are retained in such

Accounts and are not subject to withdrawal by the PHA); and establishing under the scenario included in the Cash Flows, that anticipated Revenues will be at least sufficient to pay the principal of and interest on the Bonds and all payments due from the Authority under each Qualified Hedge Agreement, when due. Each Cash Flow Statement shall be accompanied by all supporting Cash Flows, and shall be sent by the Authority to each Rating Agency.

“Cash Flows” means cash flow schedules prepared by or on behalf of the Authority.

“Conditional Redemption” means a redemption where the Authority has stated in the redemption notice to the Trustee that the redemption is conditioned upon certain events, including the deposit of funds.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Authority and related to the authorization, sale and issuance of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, bond insurance premiums, surety bond premiums, fees and expenses of any Credit Facility Provider or Hedge Provider, underwriting fees, initial fees and charges of any Fiduciary, legal fees including bond and underwriter counsel fees and charges, fees and disbursements of consultants and professionals, cost of credit ratings, fees and charges for preparation, execution, initial registration, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

“Credit Facility” means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement, a surety bond or other credit or Debt Service Reserve Fund Facility, as may be provided in the Supplemental Indenture authorizing such Series; notwithstanding the foregoing, *“Credit Facility”* does not include a Bond Insurance Policy.

“Credit Facility Provider” means, as to any particular Series of Bonds, the Person providing a Credit Facility, as may be provided in the Supplemental Indenture authorizing such Series.

“Debt Service” means, with respect to any particular Bond Year and any particular Series of Bonds, an amount equal to the sum of (i) the Interest Requirement payable on such Bonds during such Bond Year, plus (ii) any Principal Requirements of such Bonds during such Bond Year, plus (iii) any additional applicable premium payable on such Bonds during such Bond Year, but shall not include the purchase price of Bonds which may be required to be purchased other than as part of a regularly scheduled mandatory sinking fund redemption, including redemptions required pursuant to the terms of any credit facility or Debt Service Reserve Fund Facility, relating to any Bonds bearing interest at a variable rate.

“Debt Service Fund” means the Debt Service Fund established pursuant to Section 5.2.

“Debt Service Reserve Requirement” means an amount established for each Series of Bonds at least equal, in the aggregate for all Series of Bonds, to the maximum Loan Debt Service payments due on the Loans in any given Federal fiscal year occurring on or after the date of calculation.

“Defeasance Obligations” means (i) Investment Securities described in clause (1) of the definition to the Indenture, (ii) certificates, receipts or other evidences of the beneficial ownership of obligations of the type described in clause (1) of the definition of Investment Securities or in the principal of or interest on such obligations; and (iii) any other obligations used to effect defeasance of Bonds if upon such defeasance the Bonds so defeased are rated “AAA” or “Aaa” (as appropriate) by each Rating Agency, and which, in any case, (x) are not subject to redemption by the obligor thereon prior to their maturity, and (y) are at the time of acquisition a legal investment of the Authority.

“Event of Default” means (i) with respect to each Loan Agreement, those events defined as such in the Loan Agreements and (ii) with respect to the Indenture, any of the events specified in Section 10.1.

“Federally Taxable Bonds” means Bonds so designated by the Supplemental Indenture pursuant to which they are issued.

“Fiduciary” means the Trustee, the Registrar, the Authenticating Agent, any Depository, any Paying Agent or tender agent and any such additional fiduciary as may be authorized pursuant to a Supplemental Indenture, or any or all of them as may be appropriate.

“Fiscal Year” means the annual accounting period of the Authority as established by the Authority or by applicable law from time to time.

“GDB Advances” means advances on the loan to be made with respect to a particular project under any particular GDB Project Loan Agreement.

“GDB Project Loan Agreement” means any particular loan agreement between the PHA and Government Development Bank pursuant to which advances under such loan agreement are to be made during a GDB Loan Funding Period.

“GDB Loan Debt Service” means principal (including reimbursement) and interest due to Government Development Bank with respect to all GDB Advances.

“GDB Loan Funding Period” means the period during which, as certified to the PHA and the Trustee, work in accordance with the PHA Spending Plan on a particular project is either (i) not On Budget, or (ii) not On Schedule.

“Government Development Bank” means the Government Development Bank for Puerto Rico.

“Government Obligations” means (i) any direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America and (ii) certificates of ownership of the principal of or interest on obligations of the type described in clause (i) of this definition, (a) which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System in the capacity of a custodian; (b) the owner of which certificate is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (c) for

which the underlying obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Hedge Provider" means any person with which the Authority enters into a Qualified Hedge Agreement.

"Holder," "Owner," "owner" or words of similar import, when used with reference to an Obligation, means the holder or owner of any Outstanding Obligation as set forth on the registration books maintained by the Registrar.

"HUD" means the United States Department of Housing and Urban Development and its successors and assigns.

"Interest Payment Date" means (a) any date upon which interest on the Bonds is due and payable in accordance with their terms, including (b) for Bonds subject to redemption in whole or in part on any date, the date of such redemption, and (c) for all Bonds, any date determined pursuant to Section 10.3.

"Interest Period" means the period from the date interest accrues on any Senior Obligations to and including the day immediately preceding the first Interest Payment Date, and thereafter shall mean each period from and including an Interest Payment Date to and including the day immediately preceding the next Interest Payment Date.

"Interest Requirement" for any Bond Year or any Interest Period, as the context may require, as applied to any Senior Obligations then Outstanding, shall mean the total of the sums that would be deemed to accrue on such Senior Obligations during such Bond Year or Interest Period if the interest on such Senior Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts; *provided, however,* that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Section 2.7 Obligations drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement. For the purpose of determining the Interest Requirement, except as provided in Section 2.8 of the Indenture and unless otherwise provided in a Supplemental Indenture, interest on variable rate Senior Obligations shall be calculated at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet Outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been Outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, and (iii)(1) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus 50 basis points, or (2) if

interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus 50 basis points.

“*Investment Securities*” means, except as may be otherwise provided in a Supplemental Indenture, one or more of the following investments, but only if and to the extent any such investment is at the time of acquisition by the Authority a legal investment for the funds of the Authority under the laws of the Commonwealth then in force:

- (1) Government Obligations;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Services Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - U.S. Department of Housing & Urban Development
 - Federal Housing Administration;
- (3) Senior debt obligations which at the time of purchase are rated “AAA” by S&P and “Aaa” by Moody’s, issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
- (4) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1+” by S&P and “P-1” by Moody’s, and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s, and which matures not more than 180 days after the date of purchase;

- (6) Investments in a money market fund which at the time of purchase is rated “AAAm” or “AAAm-G” or better by S&P, “Aaa” or better by Moody’s, and “AAA” or better by Fitch, including any proprietary mutual fund of the Trustee or an affiliate of the Trustee for which the Trustee or an affiliate of the Trustee serves as investment advisor;
- (7) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the regulations issued thereunder with counterparties (or affiliated guarantors) rated “AA” or better by S&P, “Aa3” or better by Moody’s and “AA” or better by Fitch at the time of the execution and delivery of the agreement.
- (8) Obligations the interest upon which is tax-exempt under the provisions of Section 103 of the Code, subject to such tax-exempt obligations being rated at the time of purchase within the two (2) highest general classifications established by each Rating Agency;
- (9) Pre-refunded Municipal Obligations; and
- (10) Investment agreements with providers (or affiliated guarantors) rated “AA” or better by S&P, “Aa3” or better by Moody’s and “AA” or better by Fitch at the time of the execution and delivery of the agreement, or investment agreements otherwise approved in writing by S&P and Moody’s.

“*Issuer*” means the Authority.

“*Issuer’s Fee*” means, as certified to the Trustee and the PHA from time to time by the Issuer, to be included as a component of interest cost in the amount of Loan Debt Service, the amount in each Bond Year sufficient to pay, or reimburse the Issuer for the payment of, the costs under the Program of any required financial audits, cash flows, Code arbitrage calculations and rebate analysis, Trustee fees and expenses, including as continuing disclosure dissemination agent, rating agency fees and expenses of analytical services rendered for rating agencies, fees of Government Development Bank, and fees for any Credit Facility, Bond Insurance Policy, liquidity facility or Qualified Hedge Agreement.

“*Loan*” means the loan made to the PHA by the Authority from the proceeds of a Series of Bonds, as evidenced by one or more Loan Agreements.

“*Loan Agreement*” means each loan agreement among the Authority, the Trustee, the PHA and Government Development Bank; collectively referred to as the “Loan Agreements.”

“*Loan Debt Service*” means, with respect to each Loan, the payments of interest and principal due on such Loan for a particular Bond Year as set forth in the related Loan Agreement.

“*Loan Fund*” means the Loan Fund established pursuant to Section 5.2.

“*Moody’s*” means Moody’s Investors Service, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority. Any reference in the Indenture to such Rating Agency shall be of no force and effect from and after the time, if any, that such Rating Agency shall no longer maintain a rating on the Bonds.

“*Net Loan Proceeds*” means the proceeds of a Series of Bonds deposited into the Loan Account under the Loan Agreement.

“*Obligations*” means all Senior Obligations and Subordinate Obligations.

“*Opinion of Counsel*” means a written opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to the matter addressed by such opinion, selected by the Authority.

“*Outstanding*” when used with reference to Obligations, shall mean, as of any date, all Obligations, including any Bonds held in custody for the benefit of any Credit Facility Provider, under a Supplemental Indenture, theretofore or thereupon being authenticated and delivered under the Indenture except:

- (1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date (including Bonds purchased by the Authority, or by the Trustee at the direction of the Authority);
- (2) on or after any purchase date for Bonds subject to tender pursuant to the provisions of any Supplemental Indenture, all Bonds or portions to the Indenture (excluding any Bonds held in custody for the benefit of any Credit Facility Provider, under a Supplemental Indenture) which are tendered or deemed to have been tendered for purchase, *provided* that money sufficient for such purchase is on deposit with the tender agent;
- (3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.7, Section 6.6 or Section 9.6; and
- (4) any Bond deemed to have been paid as provided in Section 12.1(B).

“*Paying Agent*” means the Trustee or any commercial bank or trust company with trust powers designated as paying agent for any Series of the Bonds, and its successor or successors hereafter appointed in the manner in the Indenture provided.

“*PHA Spending Plan*” means the activities of the PHA to be funded in whole or in part by a Loan, and any authorized addition to, amendment of or substitution for such activities, as agreed to from time to time between the PHA and HUD.

“*Pre-refunded Municipal Obligations*” means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of each Rating Agency.

“*Principal Payment Date*” means, with reference to any Series or portion of a Series of Bonds, the date upon which the Outstanding principal amount of such Bonds becomes payable.

“*Principal Requirement*” for any Bond Year, as applied to any Senior Obligations then Outstanding, means an amount of money equal to the aggregate of the principal amount of such Senior Obligations which mature during said Bond Year (including all required Sinking Fund Payments), reduced by the aggregate principal amount of such Senior Obligations which would at or before such Bond Year be retired by reason of the payment when due and application in accordance with the Indenture and the Supplemental Indenture creating such Senior Obligations of Sinking Fund Payments payable before such Bond Year for the retirement of Outstanding Bonds.

“*Program*” means the Authority’s program of making Loans to the PHA pursuant to the provisions of the Indenture.

“*Qualified Hedge Agreement*” means (A) a financial agreement between the Authority and a Hedge Provider, including, without limitation, a cap, floor or collar; forward rate; interest rate swap (based on either a notional amount or a particular principal amount of Bonds, whether to-be-issued or outstanding), which may be either floating-to-fixed or fixed-to-floating; asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction or agreement; other similar transaction (however designated); or any combination to the Indenture; or any option with respect thereto, where (i) each Rating Agency (if such Rating Agency also rates the unsecured obligations of the Hedge Provider or its guarantor) has assigned to the unsecured obligations of the Hedge Provider or of the Person who guarantees the obligation of the Hedge Provider to make its payments to the Authority, as of the date the agreement is entered into, a credit rating approved by the Authority, and (ii) the Authority has notified each Rating Agency (whether or not such Rating Agency also rates the unsecured obligations of the Hedge Provider or its guarantor) in writing, at least 15 days prior to executing and delivering the agreement of its intention to enter into the agreement and has received from such Rating Agency written confirmation that the entering into of the agreement by the Authority will not in and of itself cause a reduction or withdrawal by such Rating Agency of its rating on the Outstanding Bonds or (B) such other agreement or agreements, including forward payment conversion agreements, and agreements or contracts providing for payments based on levels of or changes in interest rates, to exchange cash flows or a series of payments, or to hedge payment, rate spread or similar exposure between the Authority and a Hedge Provider pursuant to which each Rating Agency has provided written confirmation that the entering into of such agreement by the Authority will not in and of itself cause a reduction or withdrawal by such Rating Agency of its rating on any of the Outstanding Bonds; provided, however, that prior to entering into a Qualified Hedge Agreement, the Authority has received an opinion from counsel to the Authority that the Authority has the authority to enter into such Qualified Hedge Agreement, and

that it constitutes the legal, valid and binding obligation of the Authority, enforceable in accordance with its terms.

“*Rating Agency*” means (i) Moody’s, (ii) S&P, and (iii) any other nationally recognized securities rating agency, to the extent any such agency described in (i), (ii) and (iii) above has been requested by the Authority to issue a rating on the Bonds and such agency has issued and continues to assign a rating on such Bonds at the time in question.

“*Rebate Fund*” means the Rebate Fund established pursuant to Section 5.2.

“*Record Date*,” means, (a) with respect to any Interest Payment Date described in subsection (a) of that defined term, (1) in the case of Bonds which are not Book Entry Bonds, the Trustee’s close of business on the 15th day of the calendar month next preceding such Interest Payment Date, regardless of whether such day is a Business Day, and (2) in the case of Book Entry Bonds, the Trustee’s close of business on the Business Day preceding the Interest Payment Date, and (b) with respect to any other Interest Payment Date, a date selected by the Trustee.

“*Redemption Date*” means the date upon which Bonds are to be called for redemption pursuant to the Indenture.

“*Redemption Price*” means, with respect to any Bond, the principal amount to the Indenture plus the applicable premium, if any, payable upon redemption to the Indenture.

“*Refunding Bonds*” means any Bond issued to refund Bonds previously issued pursuant to the Indenture.

“*Regulations*” means any applicable Internal Revenue Service Regulations promulgated in proposed, temporary or final form. Proposed regulations are “applicable” only if, in the event they are adopted in final form, such regulations would apply to the Bonds.

“*Revenue Fund*” means the Revenue Fund established pursuant to Section 5.2.

“*Revenues*” means all moneys received by the Trustee for deposit into the Revenue Fund established under the Indenture, including without limitation all payments made by the PHA (or by HUD on its behalf) to the Trustee pursuant to its Loan Agreement with the Issuer.

“*S&P*” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., New York, New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*S&P*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority. Any reference in the Indenture to such Rating Agency shall be of no force and effect from and after the time, if any, that such Rating Agency shall no longer maintain a rating on the Bonds.

“*Section 2.7 Obligations*” means any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds as described in Section 2.7, including any fees or other amounts payable to the Credit Facility

Provider, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Facility Provider, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination to the Indenture.

“*Section 2.8 Obligations*” means any obligations incurred by the Authority to any one or more Hedge Providers pursuant to Section 2.8, including any fees or amounts payable by the Authority under each related Qualified Hedge Agreement.

“*Securities Depository*” means a person that is registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934 or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in Section 3(a)(12) of such Act for the purposes of Section 17A to the Indenture.

“*Senior Obligation*” means (a) any Bonds issued by the Authority under the Indenture, (b) any Section 2.7 Obligations secured on a parity with Bonds and (c) any Section 2.8 Obligations secured on a parity with Bonds.

“*Series*” means all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction, pursuant to the same Supplemental Indenture and designated as a Series in such Supplemental Indenture regardless of variations in maturity, interest rate, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

“*Sinking Fund Payment*” means, as of any particular date of calculation, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the election of the Authority.

“*Subordinate Obligation*” means any bonds, notes or evidences of indebtedness (not including Senior Obligations) issued by the Authority as permitted by Section 7.11, including all amounts owing to Government Development Bank from amounts held under the Indenture, as provided in the GDB Project Loan Agreement, and any other subordinate obligation identified in a Supplemental Indenture.

“*Subordinate Obligation Debt Service Fund*” means the Subordinate Obligation Debt Service Fund established pursuant to Section 5.2.

“*Supplemental Indenture*” means any indenture in full force and effect which has been duly executed and delivered by the Authority and the Trustee; but only if and to the extent that such Supplemental Indenture is executed and delivered in accordance with the provisions of the Indenture.

“*Tax Certificate*” means the Federal Tax Certificate executed by an Authorized Officer in connection with the issuance of each Series of Bonds.

“*Transaction Debt Service*” means the sum of Loan Debt Service and GDB Loan Debt Service.

“*Trust Estate*” means the property conveyed to the Trustee pursuant to the Granting Clauses of the Indenture. The Costs of Issuance Fund established pursuant to Section 5.6 and any rebate owing to the U.S. Treasury are not part of the Trust Estate.

Conditions Precedent to Delivery of Bonds. (Section 2.5.)

The Bonds of each Series shall be authenticated and delivered upon the order of the Authority, but only upon the receipt by an Authenticating Agent of:

- (1) a copy of the Supplemental Indenture authorizing such Series of Bonds, executed and delivered by the Authority and the Trustee and containing the following:
 - (a) the authorized principal amount and designation of such Bonds;
 - (b) the purposes for which the proceeds of such Bonds shall be used, which shall be one or more of the following: (i) the making of deposits into the Accounts for the purpose of financing Loans, (ii) the refunding of any Bonds, (iii) the refinancing of any outstanding obligations of the Authority, (iv) the payment of Costs of Issuance, (v) the funding of capitalized interest or (vi) any combination of the foregoing;
 - (c) the Dated Dates and maturity dates of such Series of Bonds;
 - (d) the interest rates, if any, of and principal amounts payable upon such Bonds (or the manner of determining such rates or amounts) and the Interest Payment Dates, if any, and Principal Payment Dates therefor;
 - (e) the denominations of, and the manner of dating, numbering and lettering such Bonds;
 - (f) subject to Section 7.3, the Paying Agents and the places of payment of such Bonds or the manner of appointing and designating the same;
 - (g) provisions concerning the forms of such Bonds and of the Authenticating Agent’s certificate of authentication;
 - (h) any other provisions deemed advisable by the Authority as shall not conflict with the provisions of the Indenture;

- (i) the Redemption Price, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds;
 - (j) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds;
 - (k) the Credit Facility Provider, Hedge Provider, or Bond Insurer, if any; and
 - (l) if applicable, designation that the Bonds of such Series are Federally Taxable Bonds;
- (2) a Bond Counsel's Opinion to the effect that (i) the Authority is duly organized and existing with the powers, among others, to issue the Bonds to provide funds for the purposes for which the Bonds are being issued and to perform its obligations under such Supplemental Indenture and the Indenture; (ii) the Authority has the right and power to execute and deliver such Supplemental Indenture and the Indenture; and such Supplemental Indenture and the Indenture have been duly and lawfully executed and delivered by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, and no other authorization for such Supplemental Indenture and the Indenture is required; (iii) such Supplemental Indenture and the Indenture create the valid pledge which they purport to create of the Trust Estate held or set aside or pledged under such Supplemental Indenture and the Indenture subject to the application to the Indenture to the purposes and on the conditions permitted by such Supplemental Indenture and the Indenture; (iv) upon deposit of the Revenues with the Trustee, the Trustee has a valid, first priority lien on the Revenues; and (v) the Bonds are valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of such Supplemental Indenture and the Indenture, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion, and the Bonds have been duly and validly authorized and issued in accordance with law and such Supplemental Indenture and the Indenture;
- (3) a written order as to the delivery of such Bonds, signed by an Authorized Officer;
- (4) evidence of the receipt by the Trustee of the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1, which shall be conclusively established by the executed certificate of the Trustee so stating;

- (5) executed Loan Agreements which, in the aggregate, provide for the payment of the related Loan Debt Service;
- (6) executed GDB Project Loan Agreements which, in the aggregate, provide for the payment of the related GDB Debt Service and related to such Series of Bonds;
- (7) in the case of Bonds (other than the initial Series of Bonds) issued pursuant to Section 7.9, evidence that the provisions of Section 7.9 have been complied with as of the date of delivery of such Series;
- (8) written approval from HUD substantially similar to that given for other Series of Bonds; and
- (9) such further documents and moneys as are required by the provisions of Article VIII or of any Supplemental Indenture entered into pursuant to Article VIII.

Conditions Precedent to Delivery of Refunding Bonds (Section 2.6.)

(A) In addition to the requirements of Section 2.5, Refunding Bonds of any Series shall be authenticated by an Authenticating Agent only upon the receipt by the Authenticating Agent of:

- (1) evidence of the receipt by the Registrar of instructions to the Registrar to give due notice of the payment or redemption of all the Bonds to be refunded and the Bond Payment Dates or Redemption Dates, if any, upon which such Bonds are to be paid or redeemed, which shall be conclusively established by the executed certificate of the Registrar so stating;
- (2) executed Loan Agreements which, in the aggregate, provide for the payment of the related Loan Debt Service;
- (3) executed GDB Project Loan Agreements which, in the aggregate, provide for the payment of the related GDB Loan Debt Service, and related to such Series of Bonds;
- (4) if Bonds are to be refunded which also are to be redeemed subsequent to the next succeeding forty-five (45) days, evidence of the receipt by the Registrar of instructions to the Registrar to mail, as provided in Article VI, notice of the redemption of such Bonds on a specified date prior to their Redemption Date, which shall be conclusively established by the executed certificate of the Registrar so stating; and
- (5) evidence of the receipt by the Trustee of (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable

Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the due date or Redemption Date, or (ii) noncallable Government Obligations for the purpose of effecting a refunding of Bonds, the principal of and interest on which when due (without reinvestment to the Indenture), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date or dates of maturity to the Indenture, which moneys or noncallable Government Obligations shall be held by the Trustee or any one or more of the Paying Agents in the Debt Service Fund or a separate escrow account to be created pursuant to an escrow agreement entered into for that purpose. Such receipt shall be conclusively established by the executed certificate of the Trustee so stating.

(B) Except as provided in Section 12.1, neither the noncallable Government Obligations nor moneys deposited with the Trustee pursuant to Section 2.6(A)(4) nor principal or interest payments on any such noncallable Government Obligations shall be withdrawn or used for any purpose other than the payment of the applicable principal or Redemption Price of and interest on the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall be deposited into the Revenue Fund.

Credit Facilities to Secure Bonds (Section 2.7.)

The Authority reserves the right to provide one or more Credit Facilities to secure the payment of the principal of, premium, if any, and interest on one or more Series of Bonds, or in the event Owners of such Bonds have the right to require purchase to the Indenture, to secure the payment of the purchase price of such Bonds upon the demand of the Owners to the Indenture. If the Authority elects to provide one or more Credit Facilities to secure the payment of the principal of, premium, if any, and interest on a Series of Bonds, all of the Bonds of such Series shall be so secured; *provided* that the terms under which the Credit Facility or Credit Facilities secure such Series of Bonds may provide that, under certain conditions set forth in the Supplemental Indenture pursuant to which such Series of Bonds is issued, such Credit Facility or Credit Facilities may terminate (as to all of the Bonds of such Series) or be replaced (as to all or any portion of the Bonds of such Series, *provided* a Credit Facility may terminate as to less than all of the Bonds of such Series only upon the delivery to the Trustee of a replacement Credit Facility therefor). In connection with any such Credit Facility, the Authority may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Credit Facility and the method by which the Authority will reimburse the issuer of such Credit Facility for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the Authority and the issuer of such Credit Facility. Any such obligation of the Authority to reimburse or otherwise make payments to the issuer of such Credit Facility shall constitute a Senior Obligation under the Indenture, and any and all amounts payable by the Authority to reimburse the issuer of any such Credit Facility,

together with interest thereon, shall for purposes of the Indenture be deemed to constitute the payment of principal of, premium, if any, and interest on such Senior Obligations.

Hedging Transactions (Section 2.8.)

(A) If the Authority shall enter into a Qualified Hedge Agreement with a Hedge Provider requiring the Authority to pay a fixed interest rate on a notional amount, or requiring the Authority to pay a variable interest rate on a notional amount, and the Authority has made a determination that such Qualified Hedge Agreement was entered into for the purpose of providing substitute interest payments for Senior Obligations of a particular maturity or maturities in a principal amount equal to the notional amount of the Qualified Hedge Agreement and as long as the Hedge Provider under such Qualified Hedge Agreement is not in default under such Qualified Hedge Agreement:

- (i) for purposes of any calculation of the Interest Requirement and the Annual Debt Service Requirement, the interest rate on the Senior Obligations of such maturity or maturities shall be determined as if such Senior Obligations bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Authority under such Qualified Hedge Agreement;
- (ii) any net payments (other than any termination payments) required to be made by the Authority to the Hedge Provider pursuant to such Qualified Hedge Agreement from Revenues shall be made on a parity with payments due on other Senior Obligations solely from amounts on deposit to the credit of the Debt Service Fund; termination payments required to be made by the Authority to the Qualified Hedge Provider shall be subordinate to the lien of the Indenture on the Trust Estate;
- (iii) all payments, other than those referred to in (ii) above, due the Hedge Provider pursuant to the Qualified Hedge Agreement and the Supplemental Indenture relating thereto shall enjoy the lien status provided in such Qualified Hedge Agreement and Supplemental Indenture, provided that such lien status may not be superior to (but may be inferior to or on a parity with) the lien of the Indenture on the Trust Estate;
- (iv) any net payments received by the Authority from the Hedge Provider pursuant to such Qualified Hedge Agreement shall be deposited to the credit of the Debt Service Fund; and
- (v) any fees incurred by the Authority (e.g., counsel, financial advisor) shall be paid by the Authority.

(B) If the Authority shall enter into a hedge agreement of the type generally described in subsection (A) of this Section that does not satisfy the requirements for qualification as a Qualified Hedge Agreement as a result of its failure to make the determination described in the

Indenture or otherwise, then:

- (i) the interest rate adjustment or assumptions referred to in paragraph (i) of said subsection (A) shall not be made;
- (ii) any net payments required to be made by the Authority to the Hedge Provider pursuant to such hedge agreement from Revenues shall be made only from amounts available after the payment of all other Senior Obligations, but prior to the payment of Subordinate Obligations; and
- (iii) any net payments received by the Authority from the Hedge Provider pursuant to such hedge agreement may be treated as Revenues at the option of the Authority and applied as directed by the Authority.

(C) No hedging transaction shall be entered into by the Authority under the Indenture without the express written consent of HUD.

Transfer of Bonds (Section 3.5.)

(A) Each Bond shall be transferable only upon the books of the Authority, which shall be kept for such purpose at the Designated Corporate Trust Office of the Registrar, by the registered owner to the Indenture in person or by his attorney duly authorized in writing, upon surrender to the Indenture together with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such Bond, the Authority shall issue in the name of the transferee a new Bond or Bonds, of the same aggregate principal amount, Series, priority, interest rate and maturity as the surrendered Bond.

(B) The Authority and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary.

Regulations With Respect to Exchanges and Transfers (Section 3.6.)

In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Authority shall execute and an Authenticating Agent shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or an Authenticating Agent may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except (i) with respect to the delivery of definitive Bonds in exchange for temporary Bonds, or (ii) as otherwise provided in the Indenture, may charge a sum sufficient to pay the cost of preparing each new Bond (except for any Bonds held in custody for the benefit of any Debt Service Reserve facility provider pursuant to a Supplemental Indenture) issued upon such exchange or transfer, which sums shall be paid by the

Bondholder requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The Authority shall not be obligated to issue, exchange or transfer any Bond during a period beginning on the opening of business on the date Bonds are selected for redemption and ending on the date of the mailing of notice of such redemption or transfer or exchange Bonds called or being called for redemption, except the unredeemed portion of Bonds being redeemed in part.

Bonds Mutilated, Destroyed, Stolen or Lost (Section 3.7.)

Subject to the applicable laws of the Commonwealth, in case any Bond shall become mutilated or be destroyed, stolen or lost, the Authority shall execute and an Authenticating Agent shall authenticate a new Bond of like Series, interest rate, maturity, principal amount and other terms of the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of a Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to the Trustee that such Bond has been destroyed, stolen or lost and to prove the ownership to the Indenture and upon furnishing the Authority and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as the Trustee may prescribe and pay such expenses as provided by any applicable law as the Authority and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it. Evidence of such cancellation shall be given to the Authority.

If, after the delivery of such replacement Bond, the original Bond in lieu of which such replacement Bond was issued is presented for payment or registration, the Trustee shall seek to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom and shall be entitled to recover from the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Trustee or the Authority in connection therewith.

Application of Bond Proceeds, Accrued Interest and Premium (Section 4.1.)

Except as otherwise provided in a Supplemental Indenture, the net proceeds of sale of any Series of Bonds (paid by the underwriters after deducting the underwriter's compensation, including expenses), other than (A) the proceeds of Refunding Bonds, (B) the proceeds from the remarketing of any Bonds, or (C) Bonds issued to refund other Bonds or obligations of the Authority not issued under the Indenture, shall, as soon as practicable upon the delivery of the Bonds, by the Trustee pursuant to Section 2.5, be applied as follows:

(1) the amount needed to pay Costs of Issuance related to such Series shall be deposited into the Cost of Issuance Fund;

(2) upon the delivery of a Series of Bonds, the amount, if any, received as accrued interest or capitalized interest, as designated by a Supplemental Indenture, shall be deposited in the Debt Service Fund unless otherwise provided in a Supplemental Indenture;

(3) the amount required to cause the Debt Service Reserve Fund to equal the Debt Service Reserve Requirement, taking into account the issuance of such Bonds, shall be deposited to the credit of the Debt Service Reserve Fund; and

(4) the balance remaining after such deposits have been made shall be deposited in the Loan Fund.

Establishment of Accounts as Part of the Trust Estate (Section 5.2.)

(A) In order best to provide for the proper administration of all moneys received as proceeds of the Bonds and constituting the Trust Estate, there are hereby created and established the following Accounts:

- (i) the Loan Fund (with individual Project Loan Accounts),
- (ii) the Revenue Fund,
- (iii) the Debt Service Fund,
- (iv) the Debt Service Reserve Fund; and
- (v) the Subordinate Obligation Debt Service Fund; and
- (vi) the Rebate Fund.

(B) The following shall be credited to the Loan Fund and allocated to Project Loan Accounts for each Project as directed to the Trustee by the PHA:

- (1) all proceeds from the sale of the Bonds (including premium, but excluding accrued interest, capitalized interest, amounts deposited into the Costs of Issuance Fund and proceeds from the sale of Refunding Bonds); and
- (2) all other moneys required or directed to be transferred to the Loan Fund pursuant to any Supplemental Indenture. All moneys in the Loan Fund shall be used for the purposes and disbursed as provided in Section 5.3.

(C) All Revenues shall be credited to the Revenue Fund as received.

(D) The following shall be credited to the Debt Service Fund:

- (1) accrued interest from the sale of the Bonds, if any;
- (2) capitalized interest on the Bonds, if any;
- (3) any amounts transferred from the Revenue Fund pursuant to Section 5.4;

- (4) any amounts transferred from the Debt Service Reserve Fund pursuant to Section 5.8; and
- (5) any amounts transferred from the Loan Fund pursuant to Section 5.3 (A)(2).

(E) Amounts shall be credited to the Subordinate Obligation Debt Service Fund from the Revenue Fund pursuant to Section 5.4.

(F) All such Accounts and any subaccounts to the Indenture established as in the Indenture provided shall be held and maintained by the Trustee and shall be identified by the Trustee according to the designations in the Indenture provided in such manner as to distinguish such Accounts from the accounts established by the Authority, and held and maintained by the Trustee, for any other of its obligations. All moneys or securities held by the Trustee or any Depository pursuant to the Indenture shall be held in trust and applied only in accordance with the provisions of the Indenture. All moneys credited to the Accounts shall be used for the purposes and disbursed as in the Indenture provided in this Article.

Loan Fund (Section 5.3.)

(A) Moneys in a Project Loan Account shall be used, except as otherwise provided by any Supplemental Indenture, only for the following purposes:

- (1) to fund the Debt Service Reserve Account and finance capital projects pursuant to the Program pursuant to executed Loan Agreements (and to reimburse GDB Advances made for the same in accordance with the terms of the GDB Project Loan Agreement);
- (2) to make deposits to the Debt Service Fund for the purpose of paying principal of or interest on Senior Obligations, whether at maturity or earlier redemption or purchase to the extent of any deficiency in the Indenture; and
- (3) any amount remaining in the Loan Fund after all Senior Obligations have been retired may be transferred to such other fund or account of the Authority as an Authorized Officer may direct for application in accordance with the Capital Fund Program unless otherwise required by one or more Loan Agreements to be used for Transaction Debt Service or to be repaid to the PHA, or as otherwise directed by HUD, *provided that* prior to any such transfer the Authority shall have furnished the Trustee with a Bond Counsel's Opinion to the effect that such transfer will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(B) Notwithstanding the provisions of subsection (A) hereof, (i) no amounts shall be expended for a Project unless there shall be on file with the Trustee a related Project Budget and related Project Schedule, and (ii) no amounts shall be so used for a Project during a related GDB

Loan Funding Period (as certified to the trustee by the Government Development Bank) unless the Available Amount of the GDB Loan is equal to zero (as certified to the Trustee by the Government Development Bank); the Trustee shall so notify HUD if informed that the Available Amount of the GDB Loan is equal to zero.

(C) Upon receipt by the Trustee of the following, the Trustee shall transfer, for the benefit of the PHA, the Net Loan Proceeds to the related loan fund established by such Loan Agreement:

- (1) an executed Loan Agreement and a Certificate of an Authorized Officer:
 - (i) stating that the Loan is made in accordance with the provisions of the Indenture; and
 - (ii) stating the principal amount of the Loan, the name of the Authority, the interest rate on the Loan, and the term of the Loan.

As soon as possible after the closing of the financing of each Loan, the Authority shall transmit to the Trustee a Certificate of an Authorized Officer stating the due dates and amounts of scheduled payments of principal and interest thereon and the principal balance remaining after each payment. The entire amount of the Net Loan Proceeds of each Loan shall be deposited into the loan fund established by the related Loan Agreement upon the satisfaction of the conditions set forth in Section 5.3(B)(1), to be held by the Trustee in its capacity as party to the Loan Agreement for disbursement in accordance with the terms of the Loan Agreement.

(D) At any time the Authority may direct the Trustee to apply amounts in the Loan Fund to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI and any Supplemental Indenture.

Revenue Fund (Section 5.4.)

Pursuant to each Loan Agreement, the Trustee shall receive for deposit in the Revenue Account established under such Loan Agreement, from or on account of the Capital Fund Program, those moneys agreed to by HUD, the Authority and the PHA. Such moneys shall, upon receipt, be transferred by the Trustee to the Revenue Fund (under the Indenture) and constitute Revenues under the Indenture. The Trustee shall promptly notify the Authority in the event there is a failure to receive from HUD when due the full amount set forth in each Loan Agreement upon receipt of such Revenues from HUD. All amounts so received shall be deposited in the Revenue Fund.

Promptly upon receipt of amounts in the Revenue Fund, the Trustee shall make disbursements from the Revenue Fund, in the following order of priority, except as otherwise provided in a Supplemental Indenture:

- (1) first, to the Debt Service Fund, the amount necessary to make the payments required pursuant to Section 5.5(A) on the next succeeding Bond Payment Date,

(2) second, to the Debt Service Reserve Fund in the amount required to bring the balance therein to equal the Debt Service Reserve Requirement;

(3) third, to the Debt Service Fund, to be applied to the redemption of Bonds, the proceeds of insurance not applied to restoration of a Project following casualty loss or condemnation;

(4) fourth, to the Issuer in the amount included in a written requisition from the Issuer in payment of one or more components of the Issuer's Fee;

(5) fifth, to the Subordinate Obligation Debt Service Fund an amount, if any, equal to (a) the amount required by any trust indenture or resolution authorizing the issuance or incurrence of Subordinate Obligations to be deposited in the Indenture on such date and without priority, one over the other, to any accounts within the Subordinate Obligation Debt Service Fund, as specified by a Certificate filed with the Trustee, (b) any termination payments required to be made by the Authority to Qualified Hedge Providers, and (c) the amount outstanding, if any, under the GDB Project Loan Agreement;

(6) sixth, to the Rebate Fund, the balance; provided, that to the extent set forth in a Certificate accompanied by a Bond Counsel's Opinion to the effect that any such transfer shall not adversely affect the exclusion of interest on the Bonds from federal income taxation, to the Loan Fund, the balance.

Whenever so directed in a Certificate, the Trustee shall make payments from the Loan Fund to the federal government in accordance with the Code to the extent necessary to comply with the Authority's covenants in Section 7.6, and to comply with any Tax Exemption Certificate and Agreement signed by an Authorized Officer and delivered in conjunction with the delivery of any Series of the Bonds.

Debt Service Fund (Section 5.5.)

Except as otherwise provided in a Supplemental Indenture, the Trustee shall make disbursements from the Debt Service Fund as follows:

(A) On each Bond Payment Date, amounts sufficient for the following payments and in the following order of priority:

- (1) first, to the Paying Agent the interest due on Outstanding Senior Obligations on such Bond Payment Date, and
- (2) second, to the Paying Agent the amount required for payment of the principal or Redemption Price of Senior Obligations due (whether by maturity or redemption) or called for redemption on such Bond Payment Date (other than termination payments related to Qualified Hedge Agreements which shall in all cases be paid on a basis subordinate to the payments with respect to Senior Obligations).

(B) Notwithstanding the provisions of this Section, no payments shall be required to be made into the Debt Service Fund so long as the amount on deposit in the Indenture shall be sufficient to pay the final maturing Outstanding Senior Obligations in accordance with their terms, including the payment of any Sinking Fund Payments payable in connection therewith.

(C) As soon as practicable after the sixtieth day preceding the due date of any Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the required unsatisfied balance of such Sinking Fund Payment.

Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established, an amount equal to the principal amount of the Bonds so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payment shall be credited as shall be provided in such instructions.

Any earnings derived from the investment of amounts deposited with the Trustee pursuant to Section 2.6 shall, to the extent not required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Debt Service Fund.

Costs of Issuance Fund (Section 5.6.)

The Authority hereby creates and establishes a Costs of Issuance Fund, which funds shall not be a part of the Trust Estate. That portion of the proceeds of a Series of Bonds that is deposited into the Costs of Issuance Fund shall be available for disbursement to pay Costs of Issuance relating to such Series against receipt of a Certificate of an Authorized Officer. In connection with the issuance of any particular Series, the Authority may direct the underwriters of such Series to deduct their compensation from the offering price, such that only the net purchase price is deposited with the Trustee for application to the appropriate Accounts in accordance with the Indenture.

Subordinate Obligation Debt Service Fund (Section 5.7.)

The moneys in the Subordinate Obligation Debt Service Fund shall be transferred by the Trustee as provided in a Certificate to the trustees or paying agents under the appropriate indentures or resolutions authorizing the issuance of Subordinate Obligations for the purpose of paying such amounts as may be required to be paid by such indentures or resolutions.

Debt Service Reserve Fund (Section 5.8.)

(A) Moneys held for the credit of the Debt Service Reserve Fund shall be transferred to the Debt Service Fund whenever amounts are required to be so deposited in the Debt Service

Fund to provide for the payments required to be made therefrom pursuant to Section 5.5.

(B) Moneys held for the credit of the Debt Service Reserve Fund as of any Principal Payment Date or Interest Payment Date on Senior Obligations in excess of the Debt Service Reserve Requirement established for a Series of Bonds, after payment of principal of and interest on the Bonds of such Series due on such date, shall be transferred to the credit of the Loan Fund until no Bonds of such Series shall be Outstanding, and then, first, to the payment of Transaction Debt Service and, second, to the PHA for application in accordance with Capital Fund Program.

(C) A Supplemental Indenture authorizing the issuance of a Series of Bonds may provide that the Debt Service Reserve Requirement with respect to such Series of Bonds is to be funded by Cash Equivalents. Whenever the Indenture shall refer to “moneys” on deposit to the credit of the Debt Service Reserve Fund, “moneys” shall be deemed to include said Cash Equivalents.

Deposits (Section 5.9.)

In order to permit such amounts to be available for use at the time when needed, any amounts held in trust under the Indenture by any Fiduciary or Depository as such, including amounts held by the Trustee, may, if and as directed by the Authority, be deposited in the commercial banking department of such Fiduciary or Depository which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary or Depository.

Investment of Certain Funds (Section 5.10.)

(A) The PHA (after consultation with its financial advisors) shall direct the Trustee from time to time as to the investment of amounts in the Accounts, and the Authority in the Indenture consents to any such direction. The PHA (after consultation with its financial advisors) shall direct the Trustee to invest and reinvest the moneys in any Account in Investment Securities so that the maturity date, or date of redemption at the option of the holder to the Indenture, or withdrawal without penalty shall coincide as nearly as practicable, but in any case shall not extend beyond, the times at which moneys are needed to be so expended. In the event that the PHA has not provided investment direction to the Trustee with respect to moneys held by the Trustee following the maturity of an Investment Security, such maturing amounts shall, until such direction is provided, be invested by the Trustee in a money market fund meeting the requirements of paragraph (6) of the definition of Investment Securities. The Investment Securities purchased shall be held by the Trustee, or by such other Depository as permitted by the Indenture, and shall be accounted for at all times as part of such Account, and the Trustee, or such other Depository, shall keep the PHA and the Authority advised as to the details of all such investments. The foregoing notwithstanding, to the extent permitted by applicable law, PHA (after consultation with its financial advisors) may direct the Trustee to commingle moneys in the various Accounts for investment purposes and the Trustee may transfer Investment Securities from Account to Account at the then current market value on the books kept for such purpose without selling such Investment Securities.

(B) Except as otherwise provided in the Indenture, Investment Securities purchased as an investment of moneys in any Account held by the Trustee under the provisions of the Indenture shall be deemed at all times to be a part of such Account but the income or interest earned and gains realized in excess of losses suffered by an Account due to the investment to the Indenture shall be deposited in the Revenue Fund or shall be credited as Revenues to the Revenue Fund from time to time and reinvested.

Valuation and Sale of Investments (Section 5.11.)

In computing the amount in any Account, obligations purchased as an investment of moneys in the Indenture shall be valued at their Value, as in the Indenture defined, plus accrued interest in each case. “Value,” which shall be determined for purposes of Section 5.5 on each Principal Payment Date and for all other purposes as provided in the Indenture or as provided or required in a Supplemental Indenture, means the value of any investments calculated as follows:

(1) as to (i) certificates of deposit and banker’s acceptances, and (ii) as to any investment not specified in (2), (3) or (4) below: the par value or if purchased at other than par at the lesser of cost or amortized value except as otherwise provided by Supplemental Indenture;

(2) as to investments (other than those described in (1)(i)) the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(3) as to investments (other than those described in (1)(i) and (2)) the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service, if any; and

(4) as to investments described in classes (7) or (10) of the definition of “Investment Securities,” the par value.

Except as otherwise provided in the Indenture, the Trustee shall sell, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Account held by it. As set forth hereunder and under Section 5.9, an Investment Security may be credited on a pro-rata basis to more than one Account and need not be sold in order to provide for the transfer of amounts from one Account to another.

Disposition of Unclaimed Funds (Section 5.13.)

Notwithstanding any provisions of the Indenture, and subject to applicable unclaimed property laws, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of, redemption premium of or interest on the Bonds remaining unclaimed for 6 years after the payment to the Indenture shall be paid (i) to HUD, if such moneys represent

payments made by HUD (either directly or on behalf of the PHA) and (ii) otherwise, to the Authority, whereupon all liability of the Authority and the Trustee with respect to such money shall cease. All moneys held by the Trustee or any Paying Agent and subject to this Section shall be invested in a money market fund meeting the criteria set forth in clause (6) of the definition of Investment Securities and any investment earnings shall be held in the account established for such unclaimed moneys.

Selection of Bonds to Be Redeemed (Section 6.4.)

In the event of redemption of less than all the Outstanding Bonds of like Series, priority and maturity, the Trustee shall assign to each such Outstanding Bond a distinctive number for each minimum denomination of the principal amount to the Indenture so as to distinguish each such minimum denomination from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection it shall deem proper in its sole discretion, from the numbers of all such Bonds then Outstanding of such maturity, as many numbers as, at the minimum denomination for each number, shall equal the principal amounts of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected; but only so much of the principal amount of each such Bonds of a denomination of more than the minimum denomination shall be redeemed as shall equal the minimum denomination for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding.

Any integral multiple of a minimum denomination may, if so specified by the provisions of a Supplemental Indenture, be utilized in connection with the partial redemption of Bonds issued pursuant to such Supplemental Indenture and such Bonds shall be subject to selection for redemption in the amount of such multiple but otherwise in accordance with this Section.

Notice of Redemption (Section 6.5.)

When the Trustee shall receive notice from the Authority of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by the Indenture pursuant to Section 6.3, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds. Such notice shall specify the Series, maturities of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount to the Indenture to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price to the Indenture, or the Redemption Price of the specified portions of the principal to the Indenture in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by first class mail or registered or certified mail, return receipt requested (such delivery method to be determined by the Trustee), not less than thirty (30) days nor more than sixty (60) days before the Redemption Date, to the registered Owners of any Bonds or portions of Bonds which are to

be redeemed, at their last addresses, if any, appearing upon the registry books, but failure so to mail any such notice shall not affect the validity of the proceedings for the redemption of Bonds with respect to which no such failure occurred; *provided, however*, that shorter periods before the Redemption Date during which notice pursuant to this Section must be given may be prescribed by a Supplemental Indenture as to Bonds issued pursuant to such Supplemental Indenture. With respect to Book Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee shall not be required to give the notice set forth in the immediately preceding sentence. Upon direction in writing by the Authority, further notice shall be given by the Trustee in such manner as may be required or suggested by regulations or market practice at the applicable time, but no defect in such further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice to the Indenture is given as prescribed in the Indenture.

In addition to the foregoing, the redemption notice shall contain with respect to each Bond being redeemed, (1) the CUSIP number, (2) the date of issue, (3) the interest date, (4) the maturity date, and (5) any other descriptive information determined by the Trustee to be needed to identify the Bonds. If a redemption is a Conditional Redemption as permitted by Section 6.8, the notice shall so state. The Trustee shall also send each notice of redemption at least thirty (30) days before the redemption date to (A) any Rating Service then rating the Bonds to be redeemed; (B) all of the registered clearing agencies known to the Trustee to be in the business of holding substantial amounts of bonds of a type similar to the Bonds; and (C) one or more national information services that disseminate notices of redemption of bonds such as the Bonds.

Payment of Redeemed Bonds (Section 6.6.)

Notice having been given by mail in the manner provided in Section 6.5, the Bonds or portions to the Indenture so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender to the Indenture at the office specified in such notice, such Bonds, or portions to the Indenture, shall be paid at the Redemption Price plus interest accrued and unpaid to the Redemption Date. If there shall be called for redemption less than the entire principal amount of a Bond, the Authority shall execute, the Authenticating Agent shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner to the Indenture, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the Owner, Bonds of like Series, priority and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions to the Indenture of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date, interest on the Bonds or portions to the Indenture of such Series and maturities so called for redemption shall cease to accrue and become payable. If said moneys shall not be available on the Redemption Date, such Bonds or portions to the Indenture shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. Copies of all notices given pursuant to this Section shall be sent by the Trustee to HUD.

Conditional Redemption (Section 6.8.)

Each Supplemental Indenture authorizing a Series of Bonds may provide that one or more of the redemption provisions applicable to such Series will be conditional upon receipt by the Trustee of sufficient funds on the applicable redemption date, and in any such event the notice of redemption shall advise that it is conditional upon such funding.

Power to Incur Senior Obligations and Pledge Revenues (Section 7.4.)

The Authority covenants that it is duly authorized under all applicable laws to incur the Senior Obligations and to execute and deliver the Indenture and to pledge the Revenues and other moneys, securities, funds, rights and interests purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. The Senior Obligations and the provisions of the Indenture are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Indenture.

Tax Covenants (Section 7.6.)

(A) The Authority shall at all times do and perform all acts and things necessary or desirable and shall refrain from such acts as shall be necessary in order to assure that interest paid on the Bonds, other than Federally Taxable Bonds, shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients to the Indenture under provisions of the Code.

The Authority shall comply with all requirements of any Tax Certificate executed and delivered by an Authorized Officer in connection with a Series of Bonds, unless the Authority has received a Bond Counsel's Opinion to the effect that such compliance is no longer necessary in order to assure that interest paid on such Series of Bonds is excludable from the gross income of the recipients to the Indenture.

Budget and Collection of Revenues (Section 7.8.)

Each Loan Agreement shall require the PHA to budget from amounts to be received by the PHA pursuant to the Capital Fund Program in each fiscal year of the PHA amounts sufficient to pay all Senior Obligations when due and all Transaction Debt Service when due, and further to agree not to budget, requisition from HUD or expend amounts to be received pursuant to the Capital Fund Program in any fiscal year of the PHA if the effect of such budget, requisition or expenditure would be to reduce the amount of Revenues to be received by the PHA pursuant to the Capital Fund Program for such fiscal year below the amount needed, or adversely affect the availability of Revenues at the times required, to pay all Senior Obligations when due and all Transaction Debt Service when due. Each Loan Agreement shall require the PHA to agree to include such budgeted amount in its annual financial plan submitted to HUD.

(A) Each Loan Agreement shall require the PHA to execute and deliver and present to HUD for execution and delivery a "Capital Fund Financing Amendment to Consolidated Annual Contributions Contract" that directs HUD to pay directly to the Trustee from Capital Fund Program moneys available to the PHA in the amount necessary to pay debt service on the Loan,

and to execute separate Annual Financing Amendments (as defined in the Loan Agreement) to authorize such payments. Amounts to be paid by HUD shall be requested to be paid to the Trustee no earlier than three (3) Business Days and no later than one (1) Business Day before each Bond Payment Date.

The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners of Senior Obligations under the Indenture against all claims and demands. From and after the sale and delivery of any of the Bonds of the Authority, the Bonds shall be incontestable by the Authority.

Issuance of Additional Bonds (Section 7.9.)

The Authority shall not hereafter create or permit the creation of or issue any additional Series of Bonds which will be secured by a charge or lien on the Revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time, subject to the provisions of Section 7.9(B), subsequent to the issuance of the initial Series of Bonds under the Indenture, on a parity with the Bonds of such initial Series of Bonds and secured by an equal charge and lien on the Revenues and assets pledged hereunder and payable equally therefrom, and except that Section 2.7 Obligations and Section 2.8 Obligations may be entered into from time to time with the priority and secured as provided in the Indenture.

No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under the Indenture unless:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of bonds, notes and other obligations theretofore issued pursuant to applicable law, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) prior to the issuance and delivery of any such additional Bonds, the Authority shall file with the Trustee the written approval by HUD of the issuance of such Additional Bonds,

(3) a Certificate demonstrating that the lesser of (y) the Capital Fund Program moneys received by the PHA in the immediately preceding Federal fiscal year and (z) the average annual amount of Capital Fund Program moneys received by the PHA, as evidenced by Annual Financing Amendments between the PHA and HUD under the Capital Fund Program in the three Federal fiscal years immediately preceding the issuance of the Additional Bonds, equals or exceeds an amount equal to three (3) times the aggregate annual Transaction Debt Service, determined in reference to all Loans outstanding and the additional Loan or Loans proposed to be made; and

(4) the written consent of any Bond Insurer and advice from the Rating Agencies that such action will not have an adverse effect on the then-current ratings of the Bonds Outstanding;

(5) the provisions of Section 2.4, 2.5 or 2.6, as applicable, shall have been complied with as of the date of delivery of such Series;

(6) at the time of issuance of such Additional Bonds, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture except, in the case of Refunding Bonds, if the initial application of the proceeds of such Bonds shall cure such default; and

(7) the PHA is not in default under any Loan Agreement.

The Authority agrees to provide 30 days' prior written notice to each of the Rating Agencies of the issuance of additional Bonds pursuant to this Section 7.9(B). Such notice shall generally describe the additional Bonds proposed to be issued.

(B) The Authority hereby expressly reserves the right to enter into one or more additional trust indentures for its purposes, including purposes relating to the Program, and reserves the right to issue other obligations not secured by the Trust Estate for such purposes.

Alteration of Rights of Owners of Senior Obligations (Section 7.14.)

Except as otherwise provided in Section 9.2, no limitations or alterations of the rights vested in the Authority to fulfill the terms of the Indenture, and no impairment of the rights and remedies of the Owners of Senior Obligations shall be made, until the Senior Obligations, together with the interest thereon and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of those Owners of Senior Obligations, are fully met and discharged.

Supplemental Indentures Not Requiring the Consent of Owners of Bonds (Section 8.1.)

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture not requiring the consent of Owners of Bonds may be executed by the Authority and the Trustee for the following purposes:

(1) to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of additional Series of Bonds or the incurrence of other Senior Obligations;

(2) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(3) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(4) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture;

(5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture of the Revenues or of any other revenues or assets;

(6) to modify any of the provisions of the Indenture in any respect whatever, but only if (i) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding, and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds issued after the date of the execution and delivery of such Supplemental Indenture;

(7) to authorize the issuance of one or more Series of Bonds, and to prescribe the terms and conditions upon which such Bonds may be issued or incurred;

(8) to create additional special trust accounts for the further securing of all Bonds issued pursuant to the Indenture if together with such Supplemental Indenture there is filed a Bond Counsel's Opinion to the effect that the creation and operation of such account will in no way impair the existing security of the Holder of any Outstanding Senior Obligation;

(9) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the Indenture;

(10) to provide for additional duties of the Trustee and other Fiduciaries;

(11) to satisfy the requirements of a Rating Agency in order to obtain, maintain or improve the rating on any of the Bonds;

(12) to provide for the orderly sale or remarketing of Bonds;

(13) to make any other change which, in the judgment of the Trustee acting in reliance on a Bond Counsel's Opinion, is necessary or desirable to maintain the tax-exempt status of the Bonds (other than Federally Taxable Bonds) and is not to the prejudice of the Trustee or Holders of the Senior Obligations;

(14) to make any change which, in the judgment of the Trustee, is not materially adverse to the interests of the Trustee or the Owners of Senior Obligations; or

(15) to make any change which has been submitted to and reviewed by each Rating Agency and for which each Rating Agency shall have confirmed in writing that such change will not itself result in the withdrawal or lowering of the rating on any Outstanding Bonds.

Supplemental Indentures Effective upon Consent of Owners of Bonds (Section 8.2.)

At any time or from time to time, a Supplemental Indenture may be executed by the Authority and the Trustee subject to consent by Owners of Bonds in accordance with and subject to the provisions of Article IX. Any such Supplemental Indenture shall become fully effective in

accordance with its terms upon the execution to the Indenture by the Authority and the Trustee and upon compliance with the provisions of Article IX.

General Provisions (Section 8.3.)

(A) This Indenture shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained in the Indenture shall affect or limit the right or obligation of the Authority to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.5 or the right or obligation of the Authority to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to the Indenture.

(B) Any Supplemental Indenture permitted or authorized by Section 8.1 may be executed by the Authority and the Trustee without the consent of any of the Owners of Bonds, but shall become effective only on the conditions, to the extent and at the time provided in said Section. The copy of every Supplemental Indenture delivered to the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully executed by the Authority in accordance with the provisions of the Indenture and the Act, is authorized or permitted by the Indenture and the Act, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Authority, and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(C) The Trustee is hereby authorized to accept the delivery of any Supplemental Indenture referred to and permitted or authorized by Section 8.1 or 8.2 and to make all further agreements and stipulations which may be in the Indenture contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Indenture is authorized or permitted by the provisions of the Indenture.

No Supplemental Indenture shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

No Supplemental Indenture shall be effective, other than a Supplemental Indenture authorizing the issuance of Additional Bonds pursuant to Section 7.8, until the Trustee receives written confirmation from each Rating Agency that the execution and delivery of such Supplemental Indenture will not itself adversely affect the rating on any Outstanding Bonds.

No Supplemental Indenture shall be effective without the prior written consent of HUD.

Powers of Amendment (Section 9.2.)

Except as provided in Article VIII of the Indenture, any modification of or amendment to the Indenture and of the rights and obligations of the Authority or the Owner of any Senior Obligation under a Supplemental Indenture, may be made by a Supplemental Indenture and in

the event such Supplemental Indenture shall be executed pursuant to Section 8.2, with the written consent given as provided in Section 9.3 (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, (ii) of the Bond Insurers, (iii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least a majority in aggregate principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iv) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the Owners of 100% in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding however, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. Notwithstanding the foregoing, no modification or amendment contained in any such supplemental indenture shall permit any of the following, without the consent of each Bondholder whose rights are affected thereby: (a) a change in the terms of stated maturity or redemption of any Bond or of any installment of interest thereon; (b) a reduction in the principal amount of or redemption premium on any Bond or in the rate of interest thereon or a change in the coin or currency in which such Bond is payable; (c) the creation of a lien on or a pledge of any part of the Trust Estate, or the money or assets pledged under the Indenture or any part to the Indenture; (d) the granting of a preference or priority of any Bond or Bonds over any other Bond or Bonds; (e) a reduction in the aggregate principal amount of Bonds of which the consent of the Bondholders is required to effect any such modification or amendment; or (f) a change in the provisions of Section 10.10. Notwithstanding the foregoing, the holder of any Bond may extend the time for payment of the principal or interest on such Bond; provided, however, that upon the occurrence of an Event of Default, funds available hereunder for the payment of the principal and interest on the Bonds shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds.

Consent of Owners of Bonds (Section 9.3.)

A copy of any Supplemental Indenture making a modification or amendment which is not permitted by the provisions of Section 8.1 (or brief summary to the Indenture or reference thereto in form approved by the Trustee), together with a request to Owners of Bonds for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Registrar on behalf of the Authority to the Owners of Bonds to be affected by such proposed amendment or modification. Such Supplemental Indenture shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Owners of the percentages of Outstanding Bonds specified in Section 9.2, and (b) a Bond Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully approved by the Authority in accordance with the provisions of the Indenture, is authorized or permitted hereby and, assuming due authorization,

execution and delivery by the other parties thereto, is valid and binding upon the Authority, and (ii) a notice shall have been delivered as in the Indenture provided in this Section.

The consent of an Owner of a Bond to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 13.4. A Certificate by the Trustee (a copy of which shall be retained by the Trustee) that it has examined such proof and that such proof is sufficient in accordance with such Section 13.4 shall be conclusive that the consents have been given by the Owners of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner to the Indenture has notice to the Indenture) unless such consent is revoked in writing by the Owner of such Bonds giving such consent or a subsequent Owner to the Indenture by filing with the Trustee, at least three (3) Business Days prior to the time when the written statement of the Trustee in the Indenture provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 13.4. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee (a copy of which shall be retained by the Trustee) to the effect that no revocation to the Indenture is on file with the Trustee.

At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Authority and the Trustee a written statement that the Owners of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture approved by the Authority and dated as of a specific date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Bonds and will be effective as provided in this Section shall be given to Owners of Bonds by the Authority by mailing such notice to the Owners of Bonds not more than ninety (90) days after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture and the written statement of the Trustee in the Indenture provided for is filed. The Authority shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters in the Indenture stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the Authority, the Fiduciaries and the Owners of all Bonds at the expiration of forty (40) days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced within such forty (40) day period, except that any Fiduciary and the Authority during such forty (40) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

Notwithstanding anything else in the Indenture, if a supplemental indenture is to become effective under Section 8.2 on the same date as the date of issuance of Additional Bonds, the

consents of the underwriters or purchasers of such Additional Bonds shall be counted for purposes of Section 8.2 and this Section.

Modifications by Unanimous Consent (Section 9.4.)

The terms and provisions of the Indenture and the rights and obligations of the Authority and of the Owners of the Bonds hereunder may be modified or amended in any respect upon the execution by the Authority and the Trustee of a Supplemental Indenture and the consent of the Owners of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification, amendment, assent or publication to the Indenture shall be required.

Events of Default (Section 10.1.)

Each of the following events is an “Event of Default”:

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise, shall not be made when and as the same becomes due;

(2) payment of any installment of interest on any of the Bonds shall not be made when and as the same shall become due;

(3) if bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by the PHA (other than (i) such proceedings instituted by the PHA against other parties and (ii) the PHA being placed into a management receivership sought or imposed by or in cooperation with HUD);

(4) the Authority shall fail or refuse to comply with the provisions of the Indenture, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture or in any Supplemental Indenture or the Bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice to the Indenture by the Trustee or the Owners of not less than 25% in principal amount of the Outstanding Bonds; provided that the Trustee or such Owners of not less than 25% in principal amount of the Outstanding Bonds shall not provide written notice to the Authority pursuant to this Section 10.1(A)(4) of any such failure, refusal or default until and after the Trustee has complied with the provisions of Section 10.1(B); or

(5) with respect to any Series of Bonds, the occurrence of any Event of Default pursuant to the Supplemental Indenture authorizing such Series.

(A) The Trustee shall not give the written notice referred to in Section 10.1(A)(4) unless or until (i) the Authority has been advised by

the Trustee that the Trustee believes that a reasonable basis exists to issue such written notice; (ii) a period of ten (10) Business Days has expired after receipt by the Authority of such advice, during which period the Authority shall have the opportunity to contest the basis for such written notice; and (iii) the Trustee has provided the Authority with written confirmation that the Trustee disagrees with the Authority's position on the matter in question.

Remedies (Section 10.2.)

Upon the happening and continuance of any Event of Default specified in paragraphs (1), (2) and (3) of Section 10.1(A), the Trustee shall promptly notify the Authority and each Fiduciary of the existence of such Event of Default and shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (4) and (5) of Section 10.1(A), the Trustee shall promptly notify the Authority and each Fiduciary of the existence of such Event of Default and may proceed (and, upon the written request of the Owners of not less than 25% in principal amount of the Outstanding Bonds and with respect to an Event of Default specified in paragraph (4) of Section 10.1(A), and 100% of the Owners of the Series of Bonds affected with respect to an Event of Default specified in paragraph (5) of Section 10.1(A), shall proceed) in its own name, subject to the provisions of Article XI, to protect and enforce the rights of the Owners of the Senior Obligations by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners of Senior Obligations, including the right to require the Authority to carry out the covenants and agreements contained in the Indenture, and to require the Authority to carry out any other covenants or agreements with Owners of Senior Obligations and to perform its duties as prescribed by law;

(2) by bringing suit upon the Senior Obligations;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Owners of Senior Obligations; or

(4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Senior Obligations.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the PHA for principal, interest or otherwise, under any provisions of the Indenture or a Supplemental Indenture or of the Senior Obligations, with, to the extent permitted by law, interest on overdue payments at the rate of interest specified in such Senior Obligations, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Senior Obligations, without prejudice to any other right or remedy of the Trustee or of the Owners of Senior Obligations, and to recover and enforce a judgment or decree against the PHA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pretrial, trial

and appellate attorney fees), and to collect from the PHA any moneys adjudged or decreed to be payable.

Upon the occurrence of any Event of Default, and on the filing of suit or other commencement of judicial proceedings to enforce the rights of the Owners of Senior Obligations under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues, pending such proceedings, with such powers as the court making such appointment shall confer.

Priority of Payments After Default (Section 10.3.)

In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price and interest then due on the Senior Obligations, such funds (other than funds held for the payment of particular Senior Obligations which have theretofore become due at maturity) and any other amounts received by the Trustee acting pursuant to this Article, after providing for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of Senior Obligations and for the payment of the fees, charges, expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Indenture, shall be applied as follows (subject to the subordination of termination payments due to Hedge Providers pursuant to Section 2.8(A)(ii) and the permitted subordination of certain other payments due Hedge Providers pursuant to Section 2.8(A)(iii)):

FIRST: To the payment to the persons entitled thereto of all installments of interest then due on Senior Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment to the Indenture 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 or Redemption Price of any Senior Obligations which shall have become due, with interest upon such principal or Redemption Price at the interest rate set forth in such Senior Obligations from the respective dates upon which they shall have become due and payable, and, if the amounts available shall not be sufficient to pay in full all the Senior Obligations due, together with such interest, then to the payment, first of such interest ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(A) So long as no Senior Obligations are Outstanding, to the reimbursement and payment to Government Development Bank of all amounts owing to Government Development Bank pursuant to the GDB Project Loan Agreement and to the payment of Subordinate Obligations in accordance with the provisions of the Supplemental Indentures executed in connection with the issuance or incurrence of such Subordinate Obligations.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as

the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Owner of a Senior Obligation or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to an Owner of a Bond any unpaid amount relating to such Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Termination of Proceedings (Section 10.4.)

In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Owners of Senior Obligations shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Owners of Bonds' Direction of Proceedings (Section 10.5.)

Anything in the Indenture to the contrary notwithstanding, the Owners of not less than 25% in principal amount of the Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, *provided* that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners of Bonds not parties to such direction.

Limitation on Rights of Owners of Bonds (Section 10.6.)

(A) Except as otherwise specifically provided by Section 10.2(A) or by this Section 10.6, no Bondholder shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under the Indenture unless such person is an Owner of one or more Bonds then Outstanding, and (1) an Event of Default shall have occurred and is continuing; (2) such Owner previously shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, (3) the Owners of not less than 25% in principal amount of the Bonds then Outstanding, shall have made written request of the Trustee after the right to exercise such powers of right of action, as the case may be, shall have occurred, and shall

have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted or granted under the law or to institute such action, suit or proceeding in its name, (4) there shall have been offered to the Trustee reasonable security and indemnity against the fees, costs, expenses and liabilities to be incurred in the Indenture or thereby, (5) the Trustee shall have refused or neglected to comply with such request within sixty (60) days after its receipt of such written request and offer of indemnity and (6) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of the Bonds then Outstanding; and such notification request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Indenture or for any other remedy hereunder or by law. It is understood and intended that, except as otherwise above provided, no one or more Owners of Bonds hereby secured shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right hereunder, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit of all Owners of Bonds. Nothing contained in this Article X shall affect or impair the absolute and unconditional right of any Owner of a Bond to receive payment of principal of, redemption premium, if any, and interest on the Bonds on and after the due date to the Indenture, and to enforce the payment of the principal of and interest on its Bonds, or the obligation of the Authority to pay the principal of and interest on each Bond issued or incurred hereunder, to the Owner to the Indenture at the time and place in said Bond expressed.

Anything to the contrary notwithstanding contained in this Section, or any other provision of the Indenture, each Owner of a Bond by its acceptance to the Indenture shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Indenture or any Supplemental Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pretrial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Owner of a Bond for the enforcement of the payment of any Bond on or after the respective due date to the Indenture expressed in such Bond.

Waiver of Defaults (Section 10.10.)

The holders of a majority in aggregate principal amount of the Outstanding Bonds may, by written notice to the Trustee, waive any existing Event of Default and its consequences, except an Event of Default under Section 10.1(A)(1) or (2). Upon any such waiver, the Event of Default shall be deemed cured and shall cease to exist for all purposes. No waiver of any Event of Default shall extend to or effect any subsequent Event of Default or shall impair any right or remedy consequent thereto.

Notice of Event of Default (Section 10.11.)

The Trustee shall give to the Owners of Bonds notice of each Event of Default hereunder known by a trust officer in the corporate trust department of the Trustee within ninety (90) days after actual knowledge of the occurrence to the Indenture, unless such Event of Default shall have been remedied or cured before the giving of such notice; *provided*, that, except in the case of default in the payment of the principal of, Redemption Price or interest on any of the Bonds, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners of Bonds. Each such notice of Event of Default shall be given by the Trustee by mailing written notice to the Indenture: (i) to all Owners of Bonds, as the names and addresses of such Owners appear upon the books for registration and transfer of Bonds as kept by the Trustee, and (ii) to such other persons as is required by law.

Further Notices of Event of Default (Section 10.12.)

The Trustee shall promptly mail written notice of the occurrence of any Event of Default to any Credit Facility Provider, Bond Insurer and any Hedge Provider; *provided* that such notice shall in no event be required to be given prior to the Bondholders receiving notice pursuant to Section 10.11. Such notices shall be given as set forth in the respective instruments creating such Credit Facility, Bond Insurance Policy or Qualified Hedge Agreement. In addition, the Trustee shall promptly mail written notice to HUD of the occurrence of any Event of Default.

Rights of Credit Facility Provider or Bond Insurer (Section 10.13.)

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, any Credit Facility Provider or any Bond Insurer shall be treated as the exclusive Owner of Bonds upon which such Credit Facility Provider or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to this Article; *provided, however*, that such Credit Facility Provider or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Facility Provider or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, until the Authority has reimbursed a Credit Facility Provider for amounts paid under a Credit Facility to pay the interest on or the principal or purchase price of any Bonds on any Bond Payment Date, or to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment, (i) such Bonds shall be deemed to be Outstanding and such Credit Facility Provider or Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid under the Credit Facility or as specified in respect of the applicable Bond Insurance Policy until such amount has been reimbursed, and (ii) upon presentation to the Registrar, such Bonds shall be registered in the name of the Credit Facility Provider or its nominee or such Bond Insurer or its nominee, as appropriate.

Certain Rights of the Trustee (Section 11.2.)

Except as otherwise provided in Section 11.1:

(A) the Trustee may rely and is protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(B) whenever in this Indenture the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence to the Indenture is specifically prescribed) may, in the absence of bad faith on its part, rely upon a Certificate;

(C) the Trustee may consult with counsel and the written advice of such counsel or an opinion of counsel shall be full and complete authorization and protection for any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion;

(D) the Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Bondholders unless such holders have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the holders of 25% in aggregate principal amount of the Bonds;

(E) the Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the Authority in person or by agent or attorney;

(F) the Trustee may execute any of its trusts or powers or perform any duties under the Indenture either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement as provided in Section 11.5, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it;

(G) the Trustee is not required to take notice or deemed to have notice of any default or Event of Default hereunder, except Events of Default under Section 10.1(A)(1) and (2), unless a Authorized Officer of the Trustee has actual knowledge to the Indenture or has received notice in writing of such default or Event of Default from the Authority or the holders of at least 25% in

aggregate principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists;

(H) the Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under the Indenture;

(I) in the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of holders of Bonds, each representing less than a majority in aggregate principal amount of the Bonds Outstanding, pursuant to the provisions of the Indenture, the Trustee, in its sole discretion, may determine what action, if any, shall be taken;

(J) the Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under the Indenture shall extend to the Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal, the defeasance or discharge of the Indenture and final payment of the Bonds;

(K) the permissive right of the Trustee to take the actions permitted by the Indenture shall not be construed as an obligation or duty to do so; and

(L) except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Compensation and Expenses of the Trustee (Section 11.5.)

Unless otherwise provided by contract with the Trustee, the Authority shall pay to the Trustee, from time to time, reasonable compensation for all services rendered by it hereunder and also reimbursement for all its reasonable expenses, charges, legal fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties hereunder; provided, however, that such obligations of the Authority under this Section shall not be secured by a lien on any funds or property held by the Trustee hereunder.

Qualifications of Trustee (Section 11.6.)

There shall at all times be a trustee hereunder which shall be a corporation or banking association organized and doing business under the laws of the United States of America, the Commonwealth or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$50,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If such

corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of this Section, the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign promptly in the manner and with the effect specified in this Article.

Resignation or Removal of Trustee; Appointment of Successor Trustee (Section 11.7.)

(A) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 11.8.

(B) The Trustee may resign at any time by giving written notice to the Authority. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(C) Prior to the occurrence and continuance of an Event of Default hereunder, or after the curing or waiver of any such Event of Default, the Authority or the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default hereunder, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In each instance such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the Authority or such holders, as the case may be, and delivered to the Trustee, the Authority, and holders of the Outstanding Bonds.

(D) If at any time: (1) the Trustee shall cease to be eligible and qualified under Section 8.06 and shall fail or refuse to resign after written request to do so by the Authority or the holder of any Bond, or (2) the Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take charge or control of the Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (A) the Authority may remove the Trustee and appoint a successor Trustee in accordance with the provisions of subsection (C) of this Section; or (B) any holder of a Bond then Outstanding may, on behalf of the holders of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

(E) The Authority shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each holder of Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

Acceptance of Appointment by Successor Trustee (Section 11.8.)

(A) Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Authority and the predecessor Trustee an instrument accepting its appointment. The resignation or removal of the retiring Trustee shall thereupon become effective, and the successor Trustee shall, without further act, deed or conveyance become vested with all the estates, properties, rights, powers and duties of the predecessor Trustee. Upon the request of the Authority or the successor Trustee, the predecessor Trustee shall execute and deliver an instrument transferring to the successor Trustee all the estates, properties, rights, powers and duties of the predecessor Trustee under the Indenture, and shall duly assign, transfer, deliver and pay over to the successor Trustee all the Trust Estate and moneys and other property then held under the Indenture. The successor Trustee shall promptly give written notice of its appointment to the holders of all Bonds Outstanding in the manner prescribed in the Indenture, unless such notice has previously been given.

(B) No successor Trustee shall accept appointment as provided in this Section unless, as of the date of such acceptance, it is eligible and qualified under the provisions of Section 11.6.

Merger, Succession or Consolidation of Trustee (Section 11.9.)

Any corporation or association: (a) into which the Trustee is merged or with which it is consolidated; (b) resulting from any merger or consolidation to which the Trustee is a party; or (c) succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor Trustee without the execution or filing of any document or the taking of any further action. Any such successor must nevertheless be eligible and qualified under the provisions of Section 11.6.

Defeasance (Section 12.1.)

(A) If the Authority shall pay or cause to be paid to the Owners of the Obligations, the principal, purchase price and interest to become due thereon, at the times and in the manner stipulated in the Indenture and in the Indenture, and pay or cause to be paid (i) to each Fiduciary its fees, costs and expenses, (ii) to each Credit Facility Provider all amounts owing under each Credit Facility or agreements relating thereto, (iii) to each remarketing agent all amounts owing under each remarketing agreement, and (iv) to each Hedge Provider all amounts owing under each Qualified Hedge Agreement, then the pledge of the Trust Estate, including any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be necessary and desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Authority all moneys or securities held by them pursuant to the Indenture which are not required for the payment of Senior Obligations.

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Senior Obligations the principal, purchase price and interest due or to become due thereon, at the times and in the manner stipulated in the Indenture and in the Indenture, and pay or cause to be paid (i) to each Fiduciary its Fees, costs and expenses relating

to such Senior Obligations, (ii) to each Credit Facility Provider relating to such Senior Obligations all amounts owing under each Credit Facility or agreements relating thereto, (iii) to each remarketing agent relating to such Senior Obligations all amounts owing under each remarketing agreement relating thereto and (iv) to each Hedge Provider relating to such Senior Obligations all amounts owing under each Qualified Hedge Agreement relating thereto, such Senior Obligations shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Authority to the Owners of such Senior Obligations shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be necessary and desirable to evidence such discharge and satisfaction.

Notwithstanding the foregoing and paragraph (B) below, the provisions of the Indenture relating to payment, registration, transfer and redemption of Bonds shall remain in effect until final maturity or the Redemption Date of the Obligations.

(B) Bonds (other than Bonds held in custody for the benefit of a Credit Facility Provider under a Supplemental Indenture) or interest installments (other than on Bonds held in custody for the benefit of a Credit Facility Provider under a Supplemental Indenture) for the payment of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Authority of funds for such payment or otherwise) shall, at the maturity or Redemption Date to the Indenture, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the maturity or Redemption Date to the Indenture, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, and/or noncallable Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date to the Indenture, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Except as provided in subsection (D) of the Indenture, neither Defeasance Obligations or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and to the extent not adverse to the tax-exempt status of such Bonds or any refunding obligations, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient

to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such maturity date to the Indenture, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

(C) The deposit required by subsection (B) of the Indenture may be made with respect to Bonds within any particular maturity, in which case such maturity of Bonds shall no longer be deemed to be Outstanding under the terms of the Indenture, and the Owners of such defeased Bonds shall be secured only by such trust funds and not by any other part of the Trust Estate, and the Indenture shall remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter.

(D) Anything in the Indenture to the contrary notwithstanding, the Authority may, in its sole discretion, in connection with the defeasance to maturity of Bonds, reserve the right at such time of defeasance to provide that such Bonds shall remain subject to redemption prior to maturity in accordance with their terms.

(E) Anything in the Indenture to the contrary notwithstanding, subject to the applicable laws of the Commonwealth, any money held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six (6) years (or such longer period of time provided by applicable Commonwealth law) after the date when all of the Bonds have become due and payable, either to their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for four (4) years (or such longer period of time provided by applicable Commonwealth law) after the date of deposit of such moneys if deposited with the Fiduciary after the date when all of the Bonds became due and payable, shall, at the written request of the Authority to the extent permitted by law, be repaid by the Fiduciary to the Authority, except as may otherwise be required by the then applicable escheat laws of the Commonwealth, as its absolute property and free from trust. The Fiduciary shall thereupon be released and discharged; except that before being required to make any such payment to the Authority or the Commonwealth and, if required by said escheat laws, the Fiduciary shall, at the expense of the Authority, cause to be published such notice as required by such laws.

(F) Written notice of the defeasance of any Bonds shall be given to each of the Rating Agencies and to HUD.

No Recourse Under Indenture or on Senior Obligations (Section 13.6.)

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any officer, employee or agent of the Authority in its individual capacity, and no recourse shall be had for the payment of the principal of or interest on the Senior Obligations or for any claim based thereon or on the Indenture against any officer, employee or agent of the Authority or against any person executing the Senior Obligations.

HUD Not Liable (Section 13.7.)

The covenants, promises, agreements and obligations of the Authority contained in the Indenture are not obligations of HUD, and the Senior Obligations are not obligations of, or guaranteed by, HUD or the United States of America.

Collection of Revenues; Recording and Filing (Section 13.8.)

(A) The Trustee covenants to cooperate with and assist the Authority, and perform all acts reasonably requested by the Authority, with respect to assuring the timely receipt of Revenues from HUD.

(B) The Trustee covenants that it will, at the expense of the Authority, cause the Authority to record and file all continuation of financing statements (and supplements) related to the Indenture and all Supplemental Indentures, in such manner and in such places as may from time to time be required by law in order to preserve and protect fully the security of any Owners of Bonds and the rights of the Trustee hereunder.

Governing Law (Section 13.10.)

This Indenture shall be governed by and construed in accordance with the laws of the Commonwealth.

Severability (Section 13.11.)

If any one or more of the covenants or agreements, or portions to the Indenture, provided in the Indenture on the part of the Authority, or of the Trustee or of any Paying Agent, to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions to the Indenture, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions to the Indenture and shall in no way affect the validity of the remaining provisions of the Indenture or of the Senior Obligations; but the Owners of Senior Obligations shall retain all the rights and benefits accorded to them under the Act or any other applicable provisions of law.

Federal Public Housing Requirements Control (Section 13.13.)

To the extent that any provision of the Indenture is in conflict with the requirements of the United States Housing Act of 1937, as amended, the applicable provisions of Title 24 of the Code of Federal Regulations, or the Annual Contributions Contract, as amended (collectively, "Federal public housing requirements"), such Federal public housing requirements shall control and govern in such instances of conflict.

PUERTO RICO PUBLIC HOUSING ADMINISTRATION
PRPHA MODERNIZATION PROGRAM
Bond Financed Project List as of November 2003 *

APPENDIX B

Property Number	Project	Units	Duration	Start	Finish	Construction	Construction Manager Fee	Relocation	Supervision	TOTALS
5161	El Manantial	200	36	01/01/04	01/01/07	\$ 16,000,000	\$1,080,000	\$160,000	\$178,331	\$17,418,331
1001	Ponce de Leon F II	132	24	02/19/04	02/19/06	10,560,000	720,000	105,600	98,000	11,483,600
1002	Santiago Iglesias Ph. II	132	24	02/19/04	02/19/06	10,560,000	720,000	105,600	147,770	11,533,370
4005	Marini Farm	100	24	02/19/04	02/19/06	2,666,667	720,000	80,000	84,000	3,550,667
5031	Jardines de Campo Rico	196	36	02/19/04	02/19/07	15,680,000	1,080,000	156,800	183,131	17,099,931
5066	Turabo Heights	254	42	02/19/04	08/19/07	20,320,000	1,260,000	203,200	242,242	22,025,442
5101	La Esmeralda	84	24	02/19/04	02/19/06	6,720,000	720,000	67,200	141,822	7,649,022
5131	Jardines de Oriente	200	36	02/19/04	02/19/07	16,000,000	1,080,000	160,000	192,407	17,432,407
1016	Rafael Lopez Nussa	404	60	03/01/04	03/01/09	32,320,000	1,800,000	323,200	336,591	34,779,791
2003	Puerta de Tierra	484	48	03/01/04	03/01/08	38,720,000	1,440,000	387,200	511,844	41,059,044
5057	Los Mirtos	304	48	03/01/04	03/01/08	24,320,000	1,440,000	243,200	293,399	26,296,599
5082	Alturas Country Club	72	24	03/01/04	03/01/06	5,760,000	720,000	57,600	57,647	6,595,247
3093	Narciso Varona	260	42	03/19/04	09/19/07	20,800,000	1,260,000	208,000	270,299	22,538,299
3095	Pedro Rosario Nieves	210	36	03/19/04	03/19/07	16,800,000	1,080,000	168,000	228,415	18,276,415
5037	Jardines de Cataño	180	36	03/19/04	03/19/07	14,400,000	1,080,000	144,000	143,464	15,767,464
5064	Colinas de Magnolias	148	24	03/19/04	03/19/06	11,840,000	720,000	118,400	148,655	12,827,055
5133	Villa del Rio	100	24	03/19/04	03/19/06	8,000,000	720,000	80,000	104,556	8,904,556
1014	Aristides Chavier	480	60	04/01/04	04/01/09	38,400,000	1,800,000	384,000	511,120	41,095,120
3097	Trina Padilla de Sans	268	48	04/01/04	04/01/08	21,440,000	1,440,000	214,400	295,252	23,389,652
5012	Ext Sabalos Gardens	300	48	04/01/04	04/01/08	24,000,000	1,440,000	240,000	320,608	26,000,608
5022	La Ceiba	300	48	04/01/04	04/01/08	24,000,000	1,440,000	240,000	329,741	26,009,741
5027	Jardines de Montellano	250	42	04/01/04	10/01/07	20,000,000	1,260,000	200,000	213,105	21,673,105
5135	Las Dalias	240	42	04/04/04	10/04/07	19,200,000	1,260,000	192,000	230,851	20,882,851
3041	Praxedes Santiago	124	24	04/19/04	04/19/06	9,920,000	720,000	99,200	122,844	10,862,044
3087	Andres Mendez Liciaga	150	24	04/19/04	04/19/06	12,000,000	720,000	120,000	125,239	12,965,239
5067	Ext. Santa Catalina	24	18	04/19/04	10/19/05	1,920,000	540,000	19,200	24,433	2,503,633
5090	Jard. De Judely	32	24	04/19/04	04/19/06	2,560,000	720,000	25,600	333,222	3,638,822
5092	La Lorenzana	100	24	04/19/04	04/19/06	8,000,000	720,000	80,000	450,000	9,250,000
5102	El Coral	100	24	04/19/04	04/19/06	8,000,000	720,000	80,000	106,043	8,906,043
5105	Las Violetas	88	24	04/19/04	04/19/06	7,040,000	720,000	70,400	80,234	7,910,634
5154	Villa Monserrate	104	24	04/19/04	04/19/06	8,320,000	720,000	83,200	107,383	9,230,583
5176	Santiago Veve Calzada	100	24	04/19/04	04/19/06	8,000,000	720,000	80,000	93,284	8,893,284
5186	Yuquiyu II	70	24	04/19/04	04/19/06	5,600,000	720,000	56,000	78,338	6,454,338
5198	Jard. De San Fernando	70	24	04/19/04	04/19/06	5,600,000	720,000	56,000	72,452	6,448,452
5212	Roberto Clemente	126	24	04/19/04	04/19/06	10,080,000	720,000	100,800	567,000	11,467,800
5023	San Fernando	334	54	05/01/04	11/01/08	26,720,000	1,620,000	267,200	329,259	28,936,459
5080	Jardines de Cupey	308	48	05/01/04	05/01/08	24,640,000	1,440,000	246,400	293,835	26,620,235
5075	Lagos de Blasina	240	36	05/20/04	05/20/07	19,200,000	1,080,000	192,000	233,939	20,705,939
5048	San Antonio Carioca	200	24	11/19/04	11/19/06	16,000,000	720,000	160,000	271,246	17,151,246
5068	Las Amapolas	204	24	11/19/04	11/19/06	18,477,523	720,000	163,200	141,119	19,501,842
5076	Catanito Gardens	124	24	11/19/04	11/19/06	9,920,000	720,000	99,200	159,939	10,899,139
5159	Los Peña	200	24	12/01/04	12/01/06	17,889,075	720,000	160,000	120,000	18,889,075
3035	Vista Alegre	74	24	12/19/04	12/19/06	5,920,000	720,000	59,200	75,127	6,774,327
3025	Felipe Sanches Osorio	186	24	09/01/05	09/01/07	15,301,682	720,000	148,800	108,000	16,278,482
TOTALS		8256				\$659,614,947	\$43,200,000	\$ 6,604,800	\$9,156,187	\$718,575,934

* PHA reserves the right at its sole discretion, at any time and from time to time, to substitute any of the Projects listed herein for new Projects..



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

APPENDIX C

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

Carlos G. Laboy-Diaz
Administrator
Puerto Rico Public Housing Administration
606 Barbosa Avenue
Rio Piedras, Puerto Rico 00936

Jose R. Cestero
Executive Director
Puerto Rico Housing Finance Authority
606 Barbosa Avenue
Rio Piedras, Puerto Rico 00936

Re: Puerto Rico Housing Finance Authority
Capital Fund Program Bonds
Series 2003

Dear Mr. Laboy and Mr. Cestero:

Thank you for the Puerto Rico Public Housing Administration's ("PRPHA") submission to the United States Department of Housing and Urban Development ("HUD") dated November 12, 2003 (the "Submission") requesting certain approvals in connection with the captioned bonds (the "Bonds").

This Bond financing program is part of an overall PRPHA accelerated modernization program for 111 properties, totaling approximately 20,830 units. The 20,830 units represent approximately 37% of the total PRPHA portfolio of 56,425 units, which consists of 329 properties located in 76 municipalities. An investment of \$1.286 billion is planned over 7 years to be partially funded from the net proceeds of the Capital Fund bond financing and the remainder from annual appropriations through the Capital Fund. A total of 53 of the 111 properties, totaling 8,654 units, are already under a construction contract and all or portions of the work relative to these projects have been completed. The remaining projects will be modernized using on-going annual Capital Funds and the net proceeds of the bonds.

A total of approximately 40 properties, containing approximately 8,000 units, are the subject of this Capital Fund Program ("CFP") bond financing. The total proceeds of the financing, as shown on the attached schedule, are estimated at \$693,000,000. The use of these proceeds will be on specifically identified projects for which no general contractor agreement has been executed as of the date of this approval. CFP funds will be used to collateralize and to

repay a bond issue over a repayment term of 21 years. The annual stabilized debt service will not exceed one third of the federal fiscal year FY 2003 CFP amounts available to PRPHA including FY 2003 CFP set aside amounts available to PRPHA. The amount of bond funding available for investment in modernization will be determined by deducting, from the gross sale proceeds of the bonds, the following items: (i) transaction costs paid from bond proceeds; (ii) a deposit to a funded debt service reserve (if any) where such funding is equal to the maximum annual debt service on the bonds; (iii) a deposit to a capital interest fund, sufficient with earnings there upon to pay interest on the bonds from their date of issuance through and including December 1, 2004. The amount remaining, following these deductions, will be deposited to the Loan Fund. Amounts deposited in the Loan Fund, and interest earnings thereon plus interest earnings on amounts held in a funded Debt Service Reserve (if any), will be available for investment in modernization of PRPHA properties.

To ensure the On Time and On Budget completion of those PRPHA modernization efforts which will be financed with the proceeds of the bonds, PRPHA is partnering with the Government Development Bank (GDB) for Puerto Rico (an instrumentality of the Commonwealth of Puerto Rico). The GDB will provide oversight in the construction payment process and will also be a financial risk partner through the establishment of an irrevocable line of credit. The initial Available Amount with respect to the line of credit will be approximately fifteen percent of amounts estimated to be available from the Loan Fund for investment in PRPHA modernization activities.

The Bonds are being issued pursuant to a Master Trust Indenture, as supplemented by a First Supplemental Trust Indenture, relating to the Bonds (collectively, the "Indenture"), between the Puerto Rico Housing Finance Authority ("Authority") and U.S. Bank Trust National Association, as Trustee (the "Trustee"). The form of Indenture was included with the submissions to HUD. A portion of the proceeds of the Bonds are to be used to fund a loan (the "Loan") to the PRPHA and the PRPHA will be obligated to repay its loan, including debt service and other costs of the Bonds (referred to as "Loan Debt Service"), from Capital Fund Program moneys.

Pursuant to the terms of the GDB Project Loan Agreement between the Government Development Bank for Puerto Rico (the "Government Development Bank") and PRPHA, the form of which was included with the Submission, the Government Development Bank may be required to make loans (the aggregate outstanding amount being the "GDB Loan") to the PRPHA in replacement of the loan from proceeds of the Bonds, and the PRPHA will in certain circumstances be obligated to make payments in repayment of these GDB Loan (referred to as "GDB Debt Service") from Capital Fund Program moneys. Loan Debt Service and GDB Debt Service, together, constitute "Transaction Debt Service" for purposes of this letter.

Based upon our review of the information and materials included with the submissions, the undersigned, on behalf of HUD, provides the following approvals and determinations.

1. HUD hereby approves the issuance of the Bonds pursuant to the Indenture and the making of the Loan pursuant to a Loan and Oversight Agreement among the PRPHA, the Trustee, the Government Development Bank and the Authority (the "Loan Agreement") in substantially the form submitted. HUD

also approves the making of the GDB Loan by Government Development Bank pursuant to the GDB Project Loan Agreement between Government Development Bank and the PRPHA (the “GDB Project Loan Agreement”) in substantially the form submitted. Any substantive changes to the form of Indenture or Loan Agreement or GDB Project Loan Agreement that affect HUD’s rights or obligations shall be submitted to HUD for review and approval. Except as stated, no further approval of the Indenture, Loan Agreement or GDB Project Loan Agreement by HUD shall be required.

2. HUD hereby approves the estimated debt service schedule attached hereto with respect to the Loan. Following the sale of the Bonds, the final debt service schedule and a payment schedule in the format HUD prescribes for HUD’s Line of Credit Control System (LOCCS) shall be submitted to HUD. Unless approved by HUD, the final debt service schedule shall not exceed the estimated debt service schedule in any year by more than 10%. HUD hereby approves the Available Amount of the GDB Loan of approximately fifteen percent of the amounts estimated to be available from the Loan Fund for investment in PRPHA modernization activities. HUD hereby approves the Available Amount of the GDB Loan of up to fifteen percent (15%) of the Loan amount, the rate of interest at the per annum daily weighted average rate for Commercial Paper Notes plus a margin of 125 basis points (including the Maximum Rate of 12%) that attaches to any Advance under the GDB Project Loan Agreement, and the terms for the making of the GDB Loan by Government Development Bank, all as set forth in the GDB Project Loan Agreement.
3. HUD hereby determines that the Authority constitutes a “public housing agency” within the meaning of section 3(b)(6) of the United States Housing Act of 1937 (the “Act”) and that the Bonds constitute housing program obligations issued by a public housing agency in connection with low-income housing projects as described in section 11(b) of the Act. The provisions of 26 U.S.C. §149(c)(2)(C)(iii) state that the interest on such obligations shall not be exempt from taxation under section 11(b) unless issued before June 19, 1984, and the provisions of 26 U.S.C. §149(c)(1) state that any exemption of income on bonds from taxation, unless otherwise excepted, must derive from the Internal Revenue Code. HUD offers no opinion on the tax status of such bonds.
4. HUD hereby agrees, subject to the availability of appropriations, to make payments needed for Debt Service on the Loan automatically and directly to the Trustee for the benefit of the PRPHA. HUD will establish a system of direct payment, through LOCCS, to the Trustee.
5. HUD hereby agrees, subject to the availability of appropriations, to permit payments needed for GDB Debt Service to be made (a) directly to the Government Development Bank for the benefit of the PRPHA and (b) from

the Bond proceeds funding the Loan, all in accordance with the GDB Project Loan Agreement.

6. HUD hereby agrees that amounts paid to the Trustee to make Loan Debt Service payments on the Loan and to the Government Development Bank to pay GDB Debt Service are authorized and under current law are not subject to recapture, and that no regulatory waiver is necessary to disclaim effectively any right, title and interest of the United States in and to such amounts. Nothing in this paragraph shall prevent HUD from recapturing funds from the PRPHA (as opposed to the Authority or the Trustee) in accordance with applicable law.
7. HUD hereby agrees that interest earned on amounts paid to the Trustee to make Transaction Debt Service payments may be applied to pay Transaction Debt Service and need not be returned to HUD. In addition, HUD hereby determines that no regulatory waiver is necessary to permit such use.
8. Nothing in this letter is intended to diminish HUD's authority to administer, monitor, and regulate the public housing program, including HUD's authority to exercise any administrative sanction provided by law; provided, however, that HUD hereby agrees that no subsequent change in the permissible use of Capital Fund Program moneys and no administrative sanction regarding the PRPHA will affect the eligibility of expenditures for Transaction Debt Service or reduce Capital Fund allocations to the PRPHA, except as required by law, below the levels needed to pay such Transaction Debt Service.
9. To the extent that allocations of Capital Fund Program moneys to the PRPHA are reduced or recaptured because Capital Fund amounts previously allocated to the PRPHA remain unobligated or unexpended in violation of Section 9(j)(1) or (5)(A) of the Act (or any successor(s) thereto), HUD agrees that, (i) unless otherwise prohibited by law, any unobligated Capital Fund Program moneys that are available to the PRPHA shall be used, on a first priority basis, to the extent necessary, to pay Transaction Debt Service and (ii) to the extent permitted or provided by law, the recapture or application of all funds unobligated or unexpended in violation of said provisions of Section 9(j) shall serve to cure such violation(s).
10. The pledge and assignment of "Revenues" under the Indenture and of Capital Fund Program moneys payable (a) to the Trustee under the Loan Agreement and (b) to the Government Development Bank under the GDB Project Loan Agreement are authorized for the purpose of securing the payment of principal of and interest on the Loan and principal and interest owing to Government Development Bank.

11. HUD hereby waives any additional notice or consent required under the Federal Assignment of Claims Act.
12. The Bonds are not obligations of or guaranteed by HUD or the United States of America, and appropriate disclosures to such affect shall be included in offering materials with respect to the Bonds.
13. The Bonds may not be issued until HUD has approved PRPHA's current Annual and 5-Year Plans, amended to reflect the redevelopment activities funded by the Bond proceeds and use of Capital Fund to service the Loan debt.
14. This approval is conditioned on the receipt from the GDB, prior to issuance of the Bonds, of a fairness opinion of the proposed bond structure in the form of a resolution approving the proposed bond issuance.
15. This approval is further conditioned upon HUD's approval, prior to Bond issuance, of PRPHA's contract to purchase Bond Insurance from a Qualified Bond Surety Provider, if such insurance is obtained.
16. No later than the issuance of the Bonds, HUD will enter into a Capital Fund Financing Amendment to Annual Contributions Contract ("Financing Amendment") with the PRPHA, in the form attached hereto, incorporating various agreements and undertakings by HUD and the PRPHA. The Authority shall be authorized to rely upon and enforce all such agreements and undertakings contained in the Financing Amendment.
17. HUD hereby agrees that Government Development Bank, while maintaining an oversight involvement pursuant to the terms of the Loan Agreement, may sell or participate to another public or private entity its obligation to make loans for purposes of the Loan Agreement during GDB Loan Funding Periods (as defined in the Loan Agreement) under the terms of the GDB Project Loan Agreement.

Except as expressly provided herein, nothing in this approval letter is intended to modify or waive the Capital Fund Program requirements, relating to the preparation and submission to HUD of annual plans and budgets and the execution and delivery each year of the Capital Fund Program Amendment to the Annual Contributions Contract in the form prescribed by HUD. This approval letter does not constitute approval for any other series of bonds issued by the Authority.

Once the PRPHA, the Authority, the GDB and the Trustee have executed the documents governing the Bonds, the Loan and the GDB Loans, as applicable, PRPHA must submit to HUD Headquarters a final closing binder containing copies of all such executed documents, including the ACC, together with a certification from PRPHA counsel, Patton Boggs, LLP, attesting that the changes requested by HUD have been made and that no other substantive changes to the

submissions have been made since they were last provided to HUD. An original and one copy of the final closing binder must be received within 30 days of the date of this letter. In addition, PRPHA shall submit (1) Direct Deposit Sign-Up Form (Standard Form 1199A), and (2) a Tab Delimited file of the debt service payment schedule for LOCCS disbursement in the format contained in Exhibit A to this letter. All submissions should be sent to:

Carolyn Dunn
U.S. Department of Housing and Urban Development
Office of Capital Improvements
451 7th Street, SW, Room 4130
Washington, DC 20410

Should you have any questions, please contact William Thorson, Director, Office of Capital Improvements at (202) 708-1640, extension 4999.

Sincerely,

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN
DEVELOPMENT

By: _____
Michael Liu
Assistant Secretary for Public and Indian
Housing

Enclosure

**CAPITAL FUND FINANCING ACC AMENDMENT
TO CONSOLIDATED ANNUAL CONTRIBUTIONS CONTRACT**

Section 1. This Capital Fund Financing ACC Amendment to Consolidated Annual Contributions Contract (“Financing Amendment”), dated December 3, 2003, covers the program (the “Program”) for the modernization of the projects of the Puerto Rico Public Housing Administration (the “HA”) to be carried out as contemplated in the HA’s public housing agency plan, as approved by HUD, pursuant to the application of funds derived from the Capital Fund program authorized by section 9(d) of the U.S. Housing Act of 1937 (the “Capital Fund Program”), together with the proceeds of (i) certain tax-exempt bonds (the “Revenue Bonds”) identified below (the loan of the proceeds of said Revenue Bonds to the HA being hereinafter referred to as the “Loan”) to be issued by the Puerto Rico Housing Finance Authority (“HFA”), a subsidiary corporation of the Government Development Bank for Puerto Rico (“Government Development Bank”) and an independent governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth”), and/or (ii) certain proceeds of amounts loaned (hereinafter referred to as the “GDB Loans”) by the Government Development Bank pursuant to the GDB Project Loan Agreement, dated as of December 1, 2003, between Government Development Bank and the HA (the “GDB Project Loan Agreement”), and secured, with respect to both the Loan and the GDB Loans, by a pledge of Capital Fund Program moneys expected to be received by the HA:

**Puerto Rico Housing Finance Authority
Capital Fund Program Bonds
Series 2003**

Section 2. This Capital Fund Financing ACC Amendment is an amendment to Consolidated Annual Contributions Contract Number: PR-43, dated March 12, 1996 (together with any amendments thereto and modifications thereof, the “ACC”).

Section 3. The ACC is amended to evidence the approval by HUD of the issuance of the Revenue Bonds identified in Section 1 and the making of the Loan identified in Section 1, the making of the GDB Loans as provided in the GDB Project Loan Agreement, and to permit the first priority pledge and payment of moneys received under the Capital Fund Program (or any successor thereto) to such Bonds, to such Loan and to such GDB Loans. This Financing Amendment is part of the ACC.

Section 4. The following provisions are applicable to the Revenue Bonds, the Loan, the GDB Loans and the Program, notwithstanding any provision of the ACC to the contrary:

(A) References in the ACC to “notes” and “bonds” shall not mean or refer to the Loan, the GDB Loans or the Revenue Bonds. Amounts payable by HUD pursuant to the Capital Fund Program (and any successor program for funding modernization needs) and pledged to the

payment of debt service on the Loan by the HA (“Loan Debt Service”) and debt service on the GDB Loans (together, Loan Debt Service and debt service on the GDB Loans are referred to as the “Transaction Debt Service”) shall be used exclusively for payment of the Transaction Debt Service and related purposes approved by HUD, and shall not be available for any other purpose, including but not limited to, (a) the repayment of any loans to HA by HUD pursuant to Section 4 of the United States Housing Act of 1937 (the “Act”), or (b) the repayment of any notes or bonds (other than the Revenue Bonds) as described in the ACC. [HUD acknowledges that Attachment VI to the ACC does not apply to the Revenue Bonds.]

(B) The Revenue Bonds do not constitute a debt or liability of HUD or the United States, the full faith and credit of the United States are not pledged to the payment of Transaction Debt Service, and the payment of Transaction Debt Service is not guaranteed by HUD or the United States.

(C) Nothing in this Financing Amendment is intended to diminish HUD’s authority to administer, monitor, and regulate the public housing program, including HUD’s authority to exercise any administrative sanction or remedy provided by law; provided, however, that except as required by law, HUD will not assert any claim or right under the ACC, including the exercise of administrative sanctions and remedies, if and to the extent that the effect of such claim or right would be to reduce the payment of Capital Fund Program moneys to the HA below the level necessary to pay Transaction Debt Service or delay the time for payment of such moneys such that required amounts would not be available to pay Transaction Debt Service when due. In the event that HUD shall determine to impose administrative sanctions upon the HA which would have the effect of reducing the payment of Capital Fund Program moneys to the HA in any year by at least 20%, HUD shall have the right (in addition to all other rights and remedies available to HUD), while such sanctions remain in effect, to require that unexpended proceeds of the Loan (except for amounts already obligated or encumbered for the payment of project costs or required for a debt service reserve or other structural purposes of such issue(s)) be applied, at the earliest permissible date, to redeem outstanding Revenue Bonds.

(D) Payment of Transaction Debt Service is a permissible use of Capital Fund Program moneys. Once the making of the Loan, the issuance of the Revenue Bonds and the execution of the GDB Project Loan Agreement have been approved by HUD, no further approval shall be required for payment of Transaction Debt Service (including any additional Loan that may subsequently be approved by HUD) with Capital Fund Program moneys available to the HA.

(E) The adoption of this Financing Amendment does not supersede or preclude the adoption of annual Capital Fund plans and annual Capital Fund Program Amendments to the ACC; provided, however, that if in any fiscal year, (i) the applicable annual Capital Fund plan shall not have been approved by HUD or (ii) the annual Capital Fund Program Amendment to the ACC shall not have been executed, in either case by the later of (i) October 1 of the first year following the end of the applicable Federal fiscal year with respect to which such funds were appropriated or (ii) 60 days prior to the first scheduled Loan Debt Service payment date following such October 1, HUD agrees, subject to the availability of appropriations, to approve immediately upon receipt from the HA (subject to any legal requirements or constraints applicable at the time), an annual Capital Fund plan and/or an annual Capital Fund Program

Amendment to the extent and in an amount sufficient to make the applicable Transaction Debt Service payment.

(F) Subject to the availability of appropriations and approval of the annual Capital Fund plan and Capital Fund Program Amendment, HUD will make Capital Fund Program moneys automatically and directly available to the trustee for the Revenue Bonds (the “Trustee”) in accordance with the approved debt service schedule, to the extent required for payment of Loan Debt Service. Such direct payment shall be implemented by whatever means are available to HUD at the applicable time, but in any event, the Trustee shall be able to receive, based upon the direction of the HA pursuant to and as embodied in this Financing Amendment, the necessary amounts without the need for payment to flow through the HA.

(G) Amounts requisitioned by or payable to the Trustee for Loan Debt Service shall not be paid earlier than three (3) business days prior to the date upon which the Trustee is required to make such payment. HUD agrees that, upon determining the amount of Capital Fund Program moneys available to the HA in any fiscal year, it will not permit disbursements of such moneys for purposes other than Loan Debt Service and related costs to an extent that would reduce the amounts available for such fiscal year below the amounts scheduled for Loan Debt Service and related costs in such fiscal year.

(H) The proceeds of the Revenue Bonds, the Loan and the GDB Loans may be expended only for purposes for which public housing Capital Fund Program moneys may be expended. The HA shall provide for the application of the proceeds of the Loan and the GDB Loans (in such detail as shall be reasonably required by HUD) in its annual and 5-year Capital Fund plans. All such uses of proceeds shall be subject to HUD approval (as part of HUD’s approval of HA’s annual plan) and the HA shall report to HUD annually with respect to such expenditures in the same manner as it accounts for the expenditure of Capital Fund Program moneys.

(I) If HFA shall issue bonds in addition to the Revenue Bonds for the purpose of funding one or more additional loans to the HA or increasing the amount of the Loan, HUD agrees that it will enter into an amendment to this Financing Amendment or a new such amendment substantially similar to this one (reflecting, as appropriate, any changes in law or the Capital Fund Program) in order to permit application of Capital Fund Program moneys to pay debt service on any such additional bonds and such increase in the Loan or such additional loan, as well as debt service on GDB Loans made in connection therewith, in a manner comparable to and with a priority equal to payments of Transaction Debt Service, provided that (i) HUD shall have approved the issuance of any such additional revenue bonds and the making of any such additional loan or increase in the Loan and (ii) the total debt service attributable to the Loan, as increased, and any additional loan shall not exceed 33 1/3% of the annual allocation of Capital Fund moneys that the HA may reasonably expect to receive.

(J) HUD and HA agree that as between Loan Debt Service and debt service on the GDB Loans, Loan Debt Service shall have priority.

Section 5 – HA representations and assurances.

By executing this Financing Amendment, the HA represents, warrants and agrees that it will apply all proceeds of the Loan and of GDB Loans (i) as approved by HUD in connection with HUD's consent to issuance of the Revenue Bonds, and (ii) to expenditures which are permissible under the laws and regulations governing the Capital Fund Program (or any applicable successor).

Section 6 – Approval of Revenue Bonds.

Once HUD has approved the issuance of the Revenue Bonds, the making of the related Loan, and the execution of the GDB Project Loan Agreement, HFA shall be entitled to rely upon the agreements of the HA and HUD as set forth in this Fund Financing Amendment as if it were a party hereto, and the terms hereof may not be amended in a manner materially adverse to the interests of HFA, the holders of the Revenue Bonds and Government Development Bank without the consent of HFA.

In consideration of the foregoing covenants, the parties do hereby set forth their seals:

(SEAL)

PUERTO RICO PUBLIC HOUSING ADMINISTRATION

ATTEST:

By: _____
Carlos G. Laboy-Díaz
Administrator

UNITED STATES OF AMERICA
Secretary of Housing and Urban
Development

By: _____
Michael Liu
Assistant Secretary

APPENDIX E

[Letterhead of Hawkins, Delafield & Wood]

December 18, 2003

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

Ladies and Gentlemen:

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

We have also examined a certified copy of a resolution adopted by the Board of Directors of the Authority on December 11, 2003 (the “Bond Resolution”), and other proofs submitted relative to the following issue of Bonds (collectively, the “Bonds”):

**\$663,060,000 Capital Fund Program Bonds
(Puerto Rico Public Housing Administration Projects), Series 2003**

<u>Serial Bond</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
December 1, 2005	\$21,735,000	2.000%
December 1, 2006	8,680,000	3.000%
December 1, 2006	13,540,000	2.000%
December 1, 2007	22,770,000	2.500%
December 1, 2008	13,370,000	4.500%
December 1, 2008	10,135,000	3.000%
December 1, 2009	7,215,000	4.500%
December 1, 2009	17,165,000	3.000%
December 1, 2010	16,855,000	5.000%
December 1, 2010	8,535,000	4.000%
December 1, 2011	19,935,000	5.000%

December 1, 2011	6,680,000	4.000%
December 1, 2012	26,365,000	5.000%
December 1, 2012	1,575,000	4.000%
December 1, 2013	23,595,000	5.000%
December 1, 2013	5,740,000	4.000%
December 1, 2014	30,810,000	5.000%
December 1, 2015	32,390,000	5.000%
December 1, 2016	34,050,000	5.000%
December 1, 2017	35,795,000	5.000%
December 1, 2018	37,630,000	5.000%
December 1, 2019	39,560,000	5.000%
December 1, 2020	41,590,000	5.000%
December 1, 2023	37,235,000	4.500%
December 1, 2024	50,110,000	4.600%

\$100,000,000 4.65% Term Bonds due December 1, 2023

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

The Bonds are issued under and pursuant to a trust indenture (said trust indenture, together with any amendments or supplements thereof and thereto, being herein called the “Indenture”) by and between the Authority and U.S. Bank Trust National Association, New York, New York, as trustee (the “Trustee”) for the purpose of (i) providing funds for a loan to the Puerto Rico Public Housing Administration (the “PRPHA”), a governmental agency attached to the Department of Housing of the Commonwealth, said loan to be repaid from certain capital grant funds required to be remitted to the PRPHA by the U. S. Department of Housing and Urban Development (the “Capital Grant Receipts”) for the financing of capital improvements to public housing projects in the Commonwealth (the “Program”), and (ii) making deposits in various funds and accounts established under the Indenture.

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

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

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

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

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

(1) The Act and the Enabling Resolution are valid, and the Authority is a duly constituted public authority and governmental instrumentality of the Commonwealth.

(2) The Bond Resolution has been duly adopted by, and is legal, valid and binding upon, the Authority.

(3) The Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other party thereto, is a legal, valid and binding agreement of the Authority, enforceable in accordance with its terms.

(4) The Bonds have been duly authorized by the Authority and constitute legal, valid and binding limited obligations of the Authority payable solely from, and secured by a valid and binding pledge of, the Trust Estate, subject only to the provisions of the Indenture permitting use of such Trust Estate and its application for the purposes and on the terms and conditions provided in the Indenture.

(5) The Bonds do not constitute a debt, obligation or pledge of credit of the Commonwealth or any municipality or political subdivision thereof, or of Government Development Bank for Puerto Rico, PRPHA or any other public instrumentality of the Commonwealth other than the Authority as set forth above, and neither the Commonwealth nor any such municipality or political subdivision, nor Government Development Bank for Puerto Rico, PRPHA or any other public instrumentality of the Commonwealth, other than the Authority as set forth above, shall be liable for the payment of the Bonds or the interest thereon.

(6) Under the provisions of the Acts of Congress now in force and under existing statutes and court decisions, (a)(i) assuming compliance with certain conditions imposed by applicable Federal tax law as described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to applicable Federal tax law, and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; and (b) the Bonds, and the interest thereon, are

exempt from state, the Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Bonds for certain Bondowners, and certain requirements of the Code must be satisfied after the date of issuance of the Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law.

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

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

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

Yours very truly