

NEW ISSUE

*In the opinion of Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2004 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"), except that no opinion is expressed as to such exclusion of interest on any 2004 Bond for any period during which such 2004 Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of the 2004 Bonds or a "related person," and (ii) interest on the 2004 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In the opinion of Bond Counsel to the Corporation, under existing statutes, interest on the 2004 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein.*

**\$19,500,000**

**NEW YORK CITY HOUSING DEVELOPMENT CORPORATION**  
**Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments),**  
**2004 Series A**

**Dated: Date of Delivery**

**Price 100%**

**Due: January 1, 2036**

The 2004 Bonds will be issued as fully registered bonds in the initial denomination of \$100,000 or any \$5,000 increment in excess of \$100,000. The 2004 Bonds will be issued in book-entry form only, in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on and principal of the 2004 Bonds will be payable by The Bank of New York, located in New York, New York, as trustee ("Trustee") for the 2004 Bonds, to Cede & Co., as nominee of DTC. Purchasers of the 2004 Bonds will not receive physical delivery of bond certificates. The 2004 Bonds will not be transferable or exchangeable, except for transfer to another nominee of DTC or otherwise as described herein.

The 2004 Bonds are being issued to finance a mortgage loan to St. Ann's 350 Limited Partnership, a New York limited partnership, for the purposes of paying a portion of the costs of acquiring and renovating a multifamily rental housing facility located at 350 St. Ann's Avenue in the Borough of the Bronx, New York, and certain other costs related thereto.

Payment of principal of and interest on the 2004 Bonds will be secured, to the extent described herein, by certain revenues and assets pledged under the Resolution, all as described herein. The principal of, interest on and purchase price of the 2004 Bonds are payable from funds advanced under an irrevocable direct pay letter of credit (the "Letter of Credit") issued by

**Citibank, N.A.**

issued pursuant to a Credit and Disbursement Agreement dated as of December 1, 2004. The Letter of Credit will expire on January 15, 2006, unless extended or terminated earlier in accordance therewith as described herein. The Bank's obligations to make advances to the Trustee upon the proper presentation of documents which conform to the terms and conditions of the Letter of Credit are absolute, unconditional and irrevocable.

**The 2004 Bonds are subject to optional and mandatory redemption at the times and in the events set forth in the Resolution and described herein.**

The 2004 Bonds are being issued as variable rate obligations which will bear interest from their date of issuance to but not including the Wednesday following said date of issue at a rate per annum set forth in a certificate of the Corporation delivered on the date of issue of the 2004 Bonds. Thereafter, the 2004 Bonds will bear interest at the Weekly Rate, as determined for the 2004 Bonds from time to time by Citigroup Global Markets Inc., unless the method for determining the interest rate on the 2004 Bonds is changed to a different method or the interest rate is converted to a fixed rate to maturity. So long as the 2004 Bonds bear interest at a Weekly Rate, interest is payable on the first Business Day of each month, commencing February, 2005.

During the period that the 2004 Bonds bear interest at the Weekly Rate, any 2004 Bond shall be purchased upon demand by the owner thereof, at a purchase price of par plus accrued interest, on any Business Day, upon at least seven (7) days' notice and delivery of a tender notice with respect to such 2004 Bond to The Bank of New York, located in New York, New York, as Tender Agent as described herein. The 2004 Bonds will be subject to mandatory tender for purchase upon a change in the method of determining the interest rate on such 2004 Bonds. The 2004 Bonds will also be subject to mandatory tender for purchase upon any substitution of the Letter of Credit or upon provision of an Alternate Security. The 2004 Bonds will also be subject to mandatory tender for purchase in other circumstances (as well as redemption prior to maturity) as described herein.

This Official Statement in general describes the 2004 Bonds only while the 2004 Bonds bear interest at the Weekly Rate.

**The 2004 Bonds are special obligations of the New York City Housing Development Corporation, a corporate governmental agency, constituting a public benefit corporation organized and existing under the laws of the State of New York. The 2004 Bonds are not a debt of the State of New York or The City of New York and neither the State nor the City shall be liable thereon, nor shall the 2004 Bonds be payable out of any funds of the Corporation other than those of the Corporation pledged therefor. The Corporation has no taxing power.**

*The 2004 Bonds are offered when, as and if issued and received by the Underwriter and subject to the unqualified approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its General Counsel. Certain legal matters will be passed upon for Citibank, N.A. by its counsel, Heller Ehrman White & McAuliffe, LLP, New York, New York. Certain legal matters will be passed upon for the Mortgagee by its special counsel, Cannon Heyman & Weiss, LLP, Albany, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Winston & Strawn LLP, New York, New York. It is expected that the 2004 Bonds will be available for delivery in New York, New York on or about December 30, 2004.*

**Citigroup**

Dated: December 28, 2004

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 2004 Bonds to any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the New York City Housing Development Corporation or the Underwriter to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from the New York City Housing Development Corporation; Citibank, N.A.; the Mortgagor (St. Ann's 350 Limited Partnership) (in the case of information contained herein relating to the Mortgagor, the Mortgage Loan and other financing and the Project); and other sources which are believed to be reliable. Such information herein is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by any of such sources as to information from any other source. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the New York City Housing Development Corporation, Citibank, N.A. or the Mortgagor, since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2004 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND OTHERS AT A PRICE LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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**\$19,500,000**  
**NEW YORK CITY HOUSING DEVELOPMENT CORPORATION**  
**Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments),**  
**2004 Series A**

This Official Statement (including the cover page and appendices) provides certain information concerning the New York City Housing Development Corporation (the “Corporation”) in connection with the sale of \$19,500,000 aggregate principal amount of its Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments), 2004 Series A (the “2004 Bonds”).

The 2004 Bonds are to be issued in accordance with the New York City Housing Development Corporation Act, Article XII of the Private Housing Finance Law, constituting Chapter 44-b of the Consolidated Laws of the State of New York, as amended (the “Act”), and pursuant to a resolution relating to the 2004 Bonds adopted by the Members of the Corporation on December 9, 2004. Such resolution, as amended and supplemented from time to time, is herein referred to as the “Resolution”. Pursuant to the Resolution, bonds issued thereunder are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the 2004 Bonds, are herein referred to as the “Bonds.” The Bank of New York, located in New York, New York, will act as trustee for the 2004 Bonds (in its capacity as trustee for the 2004 Bonds, with its successors, the “Trustee”). Certain defined terms used herein are set forth in Appendix A hereto.

### INTRODUCTION

The Corporation, which commenced operations in 1972, is a corporate governmental agency constituting a public benefit corporation organized and existing under the laws of the State of New York (the “State”). The Corporation was created by the Act for the purpose of providing and encouraging the investment of private capital in safe and sanitary dwelling accommodations in the City of New York within the financial reach of families and persons of low income, which includes families and persons whose need for housing accommodations cannot be provided by the ordinary operations of private enterprise, or in areas designated as blighted through the provision of low interest mortgage loans. The Act provides that the Corporation and its corporate existence shall continue at least so long as bonds, notes or other obligations of the Corporation shall be outstanding.

The 2004 Bonds are being issued to finance a mortgage loan (the “Mortgage Loan”) to St. Ann’s 350 Limited Partnership, a New York limited partnership (the “Mortgagor”), for the purposes of paying a portion of the costs of acquiring and renovating a multi-family rental housing facility located at 350 St. Ann’s Avenue in the Borough of the Bronx, New York (the “Project”), and certain other costs related thereto. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. The controlling entity of the Mortgagor is St. Ann’s Developers 350, LLC, a New York limited liability company. See “THE PROJECT AND THE MORTGAGOR.”

Completion of the renovation of the Project depends upon, among other things, the ability of the Mortgagor to obtain various permits and approvals, some of which have not yet been obtained. In the event that renovation of the Project is not completed within approximately 12 months, subject to force majeure, after the date of initial issuance and delivery of the 2004 Bonds, as required by the Credit Agreement (as hereinafter defined), there may be a mandatory tender or redemption of the 2004 Bonds, in whole or in part. See “DESCRIPTION OF THE 2004 BONDS—Credit Issuer’s Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination” and “Redemption of 2004 Bonds - Mandatory - Mandatory Redemption Upon a Declaration of Acceleration - Following an Event of Termination” herein. In addition, if the Mortgage Loan is made in an amount less than the amount originally anticipated, all or a portion of the 2004 Bonds may be redeemed. See “DESCRIPTION OF THE 2004 BONDS—Redemption of 2004 Bonds - Optional - Special Redemption Without Premium” herein.

Concurrently with, and as a condition precedent to, the issuance of the 2004 Bonds, the Corporation will cause to be delivered to the Trustee an irrevocable direct pay letter of credit (the “Letter of Credit”) executed and delivered by Citibank, N.A. (the “Bank”). The principal of, interest on and Purchase Price (as defined below) of the 2004 Bonds are payable from funds advanced under the Letter of Credit. The Bank will advance funds under the Letter of Credit to the Trustee with respect to the payment of: (i) the principal of the 2004 Bonds when due by

reason of acceleration, redemption, defeasance or stated maturity and (ii) up to 35 days' interest (computed at the Maximum Rate) on the 2004 Bonds when due on or prior to their stated maturity date. The Bank will also advance funds under the Letter of Credit to the Trustee up to the principal amount of the 2004 Bonds and interest thereon (computed at the Maximum Rate) for up to 35 days in order to pay the Purchase Price of 2004 Bonds that are tendered and not remarketed. The Letter of Credit will expire on January 15, 2006 (the "Letter of Credit Expiration Date"), unless extended or terminated earlier in accordance with its terms, as described herein. See "THE LETTER OF CREDIT BANK," "SECURITY FOR THE BONDS? Letter of Credit" and "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT" herein. Under certain circumstances, the Corporation or the Mortgagor may replace the Letter of Credit with a Substitute Letter of Credit or an Alternate Security. See "SECURITY FOR THE BONDS—Alternate Security" and "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND CREDIT AGREEMENT" herein.

The Mortgagor will enter into a Credit and Disbursement Agreement (the "Credit Agreement") with the Bank, pursuant to which the Mortgagor will agree to reimburse the Bank for any payments made by the Bank under the Letter of Credit. The sole obligor under the Letter of Credit will be the Bank. Upon an event of default under the Credit Agreement, the Bank may direct the mandatory tender or mandatory redemption of all or a portion of the 2004 Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT" herein.

The Mortgage Loan is to be evidenced by a mortgage note (as the same may be amended and supplemented, the "Mortgage Note") and secured by a mortgage on the Project (as the same may be amended and supplemented, the "Mortgage"). The Mortgage Note and Mortgage are to be assigned by the Corporation to the Trustee and the Bank, as their interests may appear, subject to the reservation by the Corporation of certain rights. The Trustee will assign the Mortgage Rights assigned to it to the Bank but will retain the right to receive payments relating to any Principal Reserve Fund deposits subject to the Bank's right to direct the Trustee to assign its entire interest in the Mortgage Loan to the Bank. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Covenants with Respect to the Mortgage Loan."

The 2004 Bonds are special obligations of the Corporation payable solely from payments under the Mortgage Loan and other Revenues pledged therefor under the Resolution, including any investment earnings thereon, all as provided in accordance with the terms of the Resolution. In addition, the 2004 Bonds are payable from advances under the Letter of Credit, any Substitute Letter of Credit or any Alternate Security (collectively, the "Credit Facility") provided in accordance with the terms of the Resolution. See "SECURITY FOR THE BONDS."

The 2004 Bonds are being issued as variable rate obligations which will bear interest from their date of issue to but not including the Wednesday following said date of issue at a rate per annum set forth in a certificate of the Corporation delivered on the date of issue of the 2004 Bonds. Thereafter, the 2004 Bonds will initially bear interest at the Weekly Rate, to be determined weekly and as otherwise described herein by Citigroup Global Markets Inc., as remarketing agent for the 2004 Bonds (in such capacity, the "Remarketing Agent"). Under certain circumstances, and with the prior written consent of the Bank, the method of calculating the interest rate borne by the 2004 Bonds may be changed from time to time to a different method provided for in the Resolution or the interest rate may be converted to a fixed rate to maturity. See "DESCRIPTION OF THE 2004 BONDS." So long as the Letter of Credit is in effect, the 2004 Bonds are subject to a maximum interest rate of ten percent (10%) per annum or such higher rate (which shall not exceed fifteen percent (15%) per annum) as may be established in accordance with the provisions of the Resolution (the "Maximum Rate").

During any period of time in which the 2004 Bonds bear interest at the Weekly Rate, the 2004 Bonds are subject to purchase at a price equal to 100% of the principal amount of the 2004 Bonds plus accrued and unpaid interest thereon to the date of purchase (the "Purchase Price"). Such purchase shall be made upon demand of the owner thereof on any Business Day upon at least seven days' prior notice. The 2004 Bonds are also subject to mandatory tender for purchase and are subject to optional and mandatory redemption as set forth in the Resolution and described herein.

*This Official Statement in general describes the 2004 Bonds only while the 2004 Bonds bear interest at the Weekly Rate.*

**The 2004 Bonds are not a debt of the State of New York or The City of New York and neither the State nor the City shall be liable thereon, nor shall the 2004 Bonds be payable out of any funds of the Corporation other than those of the Corporation pledged therefor. The Corporation has no taxing power.**

Descriptions of the 2004 Bonds and sources of payment, the Corporation, the Bank, the Mortgagor, the Project, the Mortgage Loan, the Letter of Credit, the Resolution, the Credit Agreement and certain related agreements are included in this Official Statement. All summaries or descriptions herein of documents and agreements are qualified in their entirety by reference to such documents and agreements and all summaries herein of the 2004 Bonds are qualified in their entirety by reference to the Resolution and the provisions with respect thereto included in the aforesaid documents and agreements. Copies of the Resolution are available for inspection at the office of the Corporation. The Corporation has covenanted in the Resolution to provide a copy of each annual report of the Corporation (and certain special reports, if any) and any Accountant's Certificate relating thereto to each Bond owner who shall have filed such owner's name and address with the Corporation for such purposes. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Accounts and Reports" herein. Other than as so covenanted in the Resolution, the Corporation has not committed to provide any information on an ongoing basis to any repository or other entity or person.

## THE CORPORATION

### Purposes and Powers

The Corporation, which commenced operations in 1972, is a corporate governmental agency constituting a public benefit corporation organized and existing under the laws of the State, created for the purposes of providing, and encouraging the investment of private capital in, safe and sanitary dwelling accommodations in New York City for families and persons of low income, which include families and persons whose need for housing accommodations cannot be provided by the ordinary operations of private enterprise, or in areas designated as blighted through the provision of low interest mortgage loans. Powers granted the Corporation under the Act include the power to issue bonds, notes and other obligations to obtain funds to carry out its corporate purposes, and to refund the same; to acquire, hold and dispose of real and personal property; to make mortgage loans to specified private entities; to purchase loans from lending institutions; to make loans insured or co-insured by the federal government for new construction and rehabilitation of multiple dwellings; to make and to contract for the making of loans for the purpose of financing the acquisition, construction or rehabilitation of multi-family housing accommodations; to acquire and to contract to acquire any federally-guaranteed security evidencing indebtedness on a mortgage securing a loan; to acquire mortgages from The City of New York (the "City"), obtain federal insurance thereon and either sell such insured mortgages or issue its obligations secured by said insured mortgages and to pay the net proceeds of such sale of mortgages or issuance of obligations to the City; and to do any and all things necessary or convenient to carry out its purposes. The Act further provides that the Corporation and its corporate existence shall continue at least so long as its bonds, including the 2004 Bonds, notes, or other obligations are outstanding.

The sale of the 2004 Bonds and the terms of such sale are subject to the approval of the Comptroller of the City. The Corporation is a "covered organization" as such term is defined in the New York State Financial Emergency Act for The City of New York, as amended, and the issuance of the 2004 Bonds is subject to the review of the New York State Financial Control Board for The City of New York.

For a description of the bond, mortgage loan, loan and servicing activities of the Corporation, see Appendix B – "Activities of the Corporation."

### Organization and Membership

The Corporation, pursuant to the Act, consists of the Commissioner of The City of New York Department of Housing Preservation and Development ("HPD") (who is designated as Chairperson of the Corporation pursuant to the Act), the Commissioner of Finance of the City and the Director of Management and Budget of the City (such officials to serve ex-officio), and four (4) public members, two (2) appointed by the Mayor of the City (the "Mayor") and two (2) appointed by the Governor of the State. The Act provides that the powers of the Corporation

shall be vested in and exercised by not less than four (4) members. The Corporation may delegate to one or more of its members, officers, agents or employees such powers and duties as it deems proper.

### Members

**SHAUN DONOVAN**, Chairperson and Member ex-officio. Mr. Donovan was appointed Commissioner of HPD by Mayor Michael R. Bloomberg, effective March 29, 2004. Prior to becoming Commissioner, Mr. Donovan was a Managing Director at Prudential Mortgage Capital Company. Before Prudential, Commissioner Donovan was a visiting scholar at New York University where he studied federally-assisted and Mitchell-Lama housing in New York City. He has held several positions at the United States Department of Housing and Urban Development including Acting Federal Housing Commissioner and Deputy Assistant Secretary for Multifamily Housing. Mr. Donovan received his Bachelor of Arts degree from Harvard University and has a Master in Public Administration degree from Harvard's John F. Kennedy School of Government and a Master in Architecture degree from Harvard Graduate School of Design.

**PETER J. MADONIA**, Vice Chairperson and Member, term expires December 31, 2005. Mr. Madonia was appointed Chief of Staff to Mayor Michael R. Bloomberg on January 1, 2002. Prior to his appointment as the Mayor's Chief of Staff, Mr. Madonia served as First Deputy Commissioner of the New York City Fire Department, Deputy Commissioner for Budget and Operations at the New York City Department of Buildings, and Executive Assistant to the New York City Deputy Mayor for Operations. Mr. Madonia received a Bachelor of Arts degree from Fordham University, where he taught as an Adjunct Professor for Urban Studies, and a Master in Urban Studies degree from the University of Chicago.

**MARK PAGE**, Member ex-officio. Mr. Page was appointed New York City Budget Director in January, 2002. Mr. Page was previously employed in the New York City Office of Management and Budget from 1978 to 2001, where he served as Deputy Director/General Counsel since 1982. Mr. Page is a graduate of Harvard University and the New York University School of Law.

**MARTHA E. STARK**, Member ex-officio. Ms. Stark was appointed New York City Commissioner of Finance by Mayor Michael R. Bloomberg on February 11, 2002. From 1990 to 1993, Ms. Stark held several senior management positions in the Department of Finance, including Acting Director of the Conciliations Bureau and Assistant Commissioner. She served as a White House Fellow in the U.S. Department of State in 1993 to 1994, and later became Director and Deputy Counsel for Policy and Development in the Manhattan Borough President's Office. Ms. Stark consulted on a Brookings Institution report on the District of Columbia's fiscal health and co-authored a study for the New York University School of Law that analyzed the high cost of building and renovating housing in New York City. Prior to her appointment, Ms. Stark was a Portfolio Manager at the Edna McConnell Clark Foundation. She also taught budget and finance courses at Hunter College and business law at Baruch College. Born in the Brownsville section of Brooklyn, Ms. Stark attended Brooklyn Technical High School, earned an A.A.S. degree from New York City Community College, a B.A. degree from New York University, where she captained the varsity basketball team, and a law degree from New York University School of Law.

**HARRY E. GOULD, JR.**, Member, serving pursuant to law. Mr. Gould is Chairman, President and Chief Executive Officer of Gould Paper Corporation, the largest privately owned independent distributor of printing paper in the United States. He was Chairman and President of Cinema Group, Inc., a major independent film financing and production company, from 1982 to May 1986, and is currently Chairman and President of Signature Communications Ltd., a new company that is active in the same field. He is a Life Member of the Executive Branch of the Academy of Motion Picture Arts and Sciences. He was a member of the Board of Directors of Domtar, Inc., the largest Canadian manufacturer of packaging and fine paper from 1995 to 2003. He is a member of the Board of Directors of the USO of Metropolitan New York. He was a member of the Board of Trustees of the American Management Association from 1996 to 1999. He was a member of Colgate University's Board of Trustees from 1976 to 1982. He was Vice Chairman of the President's Export Council, was a member of the Executive Committee and was Chairman of the Export Expansion Subcommittee from 1977 to 1980. He was a National Trustee of the National Symphony Orchestra, Washington, D.C., also serving as a member of its Executive Committee from 1977 to 1999. He was a member of the Board of United Cerebral Palsy Research and Educational Foundation,



and the National Multiple Sclerosis Society of New York from 1972 to 1999. He was a Trustee of the Riverdale Country School from 1990 to 1999.

**CHARLES G. MOERDLER**, Member, serving pursuant to law. Mr. Moerdler is a partner in the law firm of Stroock & Stroock & Lavan LLP. Prior to joining his law firm in 1967, Mr. Moerdler was Commissioner of Buildings for The City of New York from 1966 to 1967, and previously worked with the law firm of Cravath, Swaine & Moore. Mr. Moerdler has served as a member of the Committee on Character and Fitness of Applicants to the Bar of the State of New York, Appellate Division, First Department since 1977 and as a member of the Mayor's Committee on Judiciary since 1994. He has also served on the Editorial Board of the New York Law Journal since 1986. Mr. Moerdler held a number of public service positions, including Chairman of The New York State Insurance Fund from 1995 to March 1997, Commissioner and Vice Chairman of The New York State Insurance Fund from 1978 to 1994, Consultant to the Mayor of The City of New York on Housing, Urban Development and Real Estate from 1967 to 1973, Member of the Advisory Board on Fair Campaign Practices, New York State Board of Elections in 1974, Member of the New York City Air Pollution Control Board from 1966 to 1967 and Special Counsel to the New York State Assembly, Committee on Judiciary in 1961 and Committee on The City of New York in 1960. Mr. Moerdler also serves as a Trustee of St. Barnabas Hospital and served on the Board of Overseers of the Jewish Theological Seminary of America. He served as a Trustee of Long Island University from 1985 to 1991 and on the Advisory Board of the School of International Affairs, Columbia University from 1976 to 1979. Mr. Moerdler is a graduate of Long Island University and Fordham Law School, where he was an Associate Editor of the Fordham Law Review.

**MICHAEL W. KELLY**, Member, serving pursuant to law. Mr. Kelly is the managing partner of the Flying Point Group LLC which is a structured financial products and asset management company. Prior to that, Mr. Kelly was Managing Director of Ambac Capital Corporation and oversaw all of the non-insurance businesses. Prior to his employment at Ambac Capital Corporation, Mr. Kelly was a Managing Director in charge of the municipal derivatives business at Smith Barney. He began his career in 1979 as an attorney at Seward & Kissel. He received his Bachelor of Arts degree from Georgetown University and J.D. from Fordham University Law School.

#### Principal Officers

**SHAUN DONOVAN**, Chairperson.

**PETER J. MADONIA**, Vice Chairperson.

**EMILY A. YOUSSEUF**, President. Ms. Yousseuf was appointed President of the Corporation on November 3, 2003. Prior to joining the Corporation, Ms. Yousseuf was the President of Natlis Settlements, LLC, a specialty finance company. Before joining Natlis Settlements, LLC, Ms. Yousseuf held various senior positions at Credit Suisse First Boston, Prudential Securities and Merrill Lynch, Pierce, Fenner & Smith Incorporated. During her tenure at Merrill Lynch, Ms. Yousseuf was a Managing Director in the Housing Finance Department responsible for securing and syndicating mortgage-and asset-backed securities. Ms. Yousseuf was also Vice President of Tax-Exempt Housing Finance for Standard & Poor's Ratings Services, where she specialized in tax-exempt bond finance in both multi- and single-family housing. She also developed Standard & Poor's rating criteria for Section 8 Housing Bonds and for single-family Mortgage Revenue Bonds. Ms. Yousseuf is a graduate of Wagner College and holds an M.A. degree in Urban Affairs and Policy Analysis from the New School for Social Research.

**JOHN A. CROTTY**, Executive Vice President and Chief of Staff. Mr. Crotty was appointed Executive Vice President and Chief of Staff of the Corporation on April 15, 2004. Prior to joining the Corporation, Mr. Crotty was Director of City Legislative Affairs for the Mayor of New York City where he directed a staff responsible for preparing the Mayor's legislative agenda in the City Council. Prior to joining the Mayor's Office, Mr. Crotty was a Manager of Corporate Development at Verizon. Mr. Crotty has also held several positions at PaineWebber. Mr. Crotty is a graduate of the University of Rochester and has his M.B.A. from Columbia Business School.

**RICHARD M. FROEHLICH, Senior Vice President and General Counsel.** Mr. Froehlich, an attorney and member of the New York State Bar, was appointed Senior Vice President and General Counsel of the Corporation effective November 17, 2003. Prior to joining the Corporation, he was Counsel at the law firm of O'Melveny & Myers LLP in its New York City office, where Mr. Froehlich's practice focused on real estate and public finance with a particular emphasis on affordable housing. From 1993 to 1998, Mr. Froehlich was an Assistant Counsel at the New York State Housing Finance Agency. Upon graduation from law school, he practiced law at the New York City office of Skadden, Arps, Slate, Meagher & Flom. Mr. Froehlich received his B.A. degree from Columbia College, Columbia University and his J.D. from Columbia University School of Law. Mr. Froehlich is on the board of directors of New Destiny Housing Corp., a New York non-profit corporation.

**TERESA GIGLIELLO, Senior Vice President—Portfolio Management.** Ms. Gigliello was appointed a Senior Vice President of the Corporation on August 3, 1998. Prior to such appointment, Ms. Gigliello held the position of Director of Audit. She began her career with the Corporation in 1985 as an accountant and served as the Corporation's Internal Auditor from 1986 until her appointment as Director of Audit in 1995. Ms. Gigliello received a Bachelor of Science from St. John's University.

**CAROL S. KOSTIK, Senior Vice President and Chief Financial Officer.** Ms. Kostik was appointed Chief Financial Officer of the Corporation effective February 17, 2004 and Senior Vice President on April 15, 2004. Prior to joining the Corporation, Ms. Kostik was Chief Financial Officer of the Nassau County Interim Finance Authority ("NIFA"), a State authority created in June 2000 in response to Nassau County's fiscal distress. At NIFA, she was responsible for initiating and overseeing all aspects of financial management, including internal and external reporting, investments, internal controls and the development of NIFA's bond structure and issuance of over \$2.0 billion of bonds and notes. Previously, she was a Vice President in Merrill Lynch & Company's public finance department. She began her career at New York City's Department of Housing Preservation and Development. Ms. Kostik holds a B.A. in Political Economy from Williams College, a Diploma in Real Estate Analysis and Appraisal from New York University's Real Estate Institute, and an M.B.A. degree from Stanford University's Graduate School of Business.

**JOY F. WILLIG, Deputy General Counsel and Secretary.** Ms. Willig, an attorney and member of the New York Bar, joined the Corporation in August 1998, and was appointed as Deputy General Counsel and Assistant Secretary in September 1998. She was designated to serve as Secretary in May 2000. Prior to joining the Corporation, she was Associate Counsel at the New York State Housing Finance Agency, was associated with a law firm in New York City and clerked in the United States District Court, Southern District of New York. Ms. Willig received a Bachelor of Science degree from Cornell University and her J.D. from Cardozo School of Law.

#### Recent Developments

The United States Attorney for the Southern District of New York (the "U.S. Attorney") and The City of New York Department of Investigation ("DOI") have been jointly investigating, among other things, alleged misuse of corporate funds by certain former officers of the Corporation (the "Investigation"). As a result of the Investigation, on March 13, 2003, Russell A. Harding, President of the Corporation from June 1998 to February 2002, was indicted on federal felony charges for participating with others in a scheme to defraud the Corporation of hundreds of thousand of dollars. Mr. Harding has entered a plea of not guilty to the charges against him. On May 5, 2003, Luke Cusack, Senior Vice President for Administration of the Corporation from June 1998 to March 2002, pled guilty to participating in a scheme to defraud the Corporation of hundreds of thousands of dollars, a federal felony.

During the course of the Investigation, the Corporation retained a private law firm to review the controls and financial procedures in place at the Corporation, and recommend enhancements to those procedures to safeguard the Corporation's assets. As a result of the recommendations, on March 18, 2003, the Corporation adopted certain policy and procedural changes designed to assure oversight of the expenditures of the Corporation which have been implemented. In addition, the Corporation entered into a memorandum of understanding with DOI dated March 6,

2003, which was ratified by the Board on March 18, 2003, pursuant to which any allegation of corruption must be referred to DOI.

While the Corporation can give no assurance as to the future course or the ultimate outcome of the Investigation, the Corporation does not believe that the aforementioned indictment or plea, or the results of the Investigation will adversely affect the operations of the Corporation, or the pledge, collection or application of any monies or security provided for the payment of the 2004 Bonds.

### **THE MORTGAGE LOAN AND OTHER FINANCING**

The Resolution authorizes the issuance by the Corporation of the 2004 Bonds to provide moneys to finance the Mortgage Loan for the purposes of paying a portion of the costs of acquiring and renovating the Project and certain other costs related thereto. As a condition to the initial issuance and delivery of the 2004 Bonds, the Bank is to deliver the Letter of Credit for the benefit of the Trustee. In addition, the Corporation and the Mortgagor will enter into a construction loan agreement (as the same may be amended or supplemented, the "Loan Agreement"), prior to or simultaneously with the issuance of the 2004 Bonds. The Mortgage Loan is to be evidenced by the Mortgage Note, in an amount equal to the principal amount of the 2004 Bonds, executed by the Mortgagor in favor of the Corporation and secured by a Mortgage on the Project. The Mortgagor is required under the Mortgage Note to make payments sufficient to pay principal of and interest on the 2004 Bonds. Pursuant to the terms of the Resolution and the Assignment and Servicing Agreement by and among the Corporation, the Trustee, the Bank and the Mortgagor (the "Assignment"), the Corporation is to assign to the Trustee and to the Bank, all of its right, title and interest in and to the Mortgage Loan, the Loan Agreement, the Mortgage Note, the Mortgage and other assigned documents (except certain reserved rights as described in the Assignment). If the costs of acquiring and renovating the Project are less than the amount originally anticipated and, in turn, the Mortgage Loan is made in an amount less than the amount originally anticipated, a portion of the 2004 Bonds may be redeemed. See "DESCRIPTION OF THE 2004 BONDS — Redemption of 2004 Bonds – Optional – Special Redemption Without Premium" herein.

In the Credit Agreement, the Mortgagor agrees to complete the renovation of the Project within approximately 12 months, subject to force majeure, after the date of the initial issuance and delivery of the 2004 Bonds. There can be no assurance that the Project will be completed or that it will be completed on schedule. Failure to complete renovation of the Project by the date required in the Credit Agreement is an event of default under the Credit Agreement and may, at the option of the Bank, result in a mandatory tender or redemption in whole or in part of the 2004 Bonds. See "DESCRIPTION OF THE 2004 BONDS—Credit Issuer's Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination" and "Redemption of 2004 Bonds - Mandatory - Mandatory Redemption Upon a Declaration of Acceleration - Following an Event of Termination" and "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT" herein.

The Mortgagor has agreed to pay fees to the Bank in connection with the issuance and maintenance of the Letter of Credit and to indemnify the Bank in certain circumstances. Failure of the Mortgagor to make payments when due under the Mortgage Loan or the Credit Agreement, as the case may be, will result in an event of default under the Credit Agreement and may, at the option of the Bank, result in a mandatory tender or redemption, in whole or in part, of the 2004 Bonds. See "DESCRIPTION OF THE 2004 BONDS—Credit Issuer's Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination" and "Redemption of 2004 Bonds - Mandatory - Mandatory Redemption Upon a Declaration of Acceleration - Following an Event of Termination" herein. See also "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT" herein.

Due to the inherent uncertainty of future events and conditions, including, without limitation, general interest rate levels, no assurance can be given that revenues generated by the Project will be sufficient to pay debt service on the Mortgage Loan, operating expenses of the Project, Bank fees, Remarketing Agent fees, Trustee and Tender Agent fees, and fees owed to the Corporation. The ability of the Mortgagor to generate sufficient revenues will be affected by a variety of factors including, but not limited to, the maintenance of a sufficient level of occupancy, the requirement that the unsubsidized rent charged for the Low Income Units (as hereinafter defined) be substantially below market rates, the ability to achieve increases in rents to cover increases in debt service and operating expenses, the level of operating expenses, project management, adverse changes in applicable laws and

regulations, and general economic conditions and other factors in the metropolitan area surrounding the Project. Furthermore, adverse changes may occur from time to time with respect to any of the preceding factors or other factors or events which may have a negative impact on the occupancy level and rental income of the Project. Failure of the Mortgagor to make payments under the Mortgage Loan will result in an event of default under the Credit Agreement and may, at the option of the Bank, result in a mandatory tender or redemption in whole or in part of the 2004 Bonds. See “DESCRIPTION OF THE 2004 BONDS – Credit Issuer’s Right to Cause a Mandatory Tender for Purchase of 2004 Bonds upon an Event of Termination” and “Redemption of 2004 Bonds – Mandatory – Mandatory Redemption Upon a Declaration of Acceleration – Following an Event of Termination” and “SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT” herein.

Under the terms of a joint and several completion guaranty (as same may be amended or supplemented, the “Completion Guaranty”) executed and delivered by Maurice S. Vaughn, Eugene Schneur, Leonard D’Amico, Peter Florey, Alliant Capital, Ltd. and Jericho Services, Inc. (collectively, the “Completion Guarantors”) in connection with the Project, to the Bank, the Completion Guarantors have agreed to guarantee completing renovation of the Project. Under the terms of a non-recourse carve-out guaranty (as same may be amended or supplemented, the “Carve-Out Guaranty”); together with the Completion Guaranty, the “Guaranty”), executed and delivered by Maurice S. Vaughn, Eugene Schneur, Leonard D’Amico, Peter Florey and Alliant Capital, Ltd. (collectively, the “Carve-Out Guarantors”); together with the Completion Guarantors, the “Guarantors”) in connection with the Project, to the Bank, the Carve-Out Guarantors have agreed to guarantee the payment of certain of the Mortgagor’s obligations under the Credit Agreement. Failure by the Guarantors to perform their obligations under the Guaranty may result in an event of default under the Credit Agreement and may, at the option of the Bank, result in a mandatory tender or redemption, in whole or in part, of the 2004 Bonds. See “SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT” and “DESCRIPTION OF THE 2004 BONDS—Credit Issuer’s Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination” and “Redemption of 2004 Bonds - Mandatory - Mandatory Redemption Upon a Declaration of Acceleration - Following an Event of Termination” herein. Neither the owners of the 2004 Bonds nor the Corporation will have any rights with respect to the Guaranty, and the obligations thereunder, provided by the Guarantors. The Guaranty is provided for the sole benefit of the Bank.

All of the units in the Project currently benefit from project based rent subsidies provided by the United States Department of Housing and Urban Development (“HUD”) pursuant to Section 8 of the United States Housing Act of 1937, as amended, in accordance with a Housing Assistance Payment Contract relating to the Project (the “Project HAP Contract”), between Thessalonica Court Associates and the Corporation, in its capacity as Section 8 administrator for HUD. Upon the acquisition of the Project by the Mortgagor, Thessalonica Court Associates will assign all of its rights, title and interest in and to the Project HAP Contract to the Mortgagor. The Project HAP Contract expires in January 2006, which is prior to the maturity date of the Mortgage Note. Since payments received under the Project HAP Contract constitute a primary source of revenues for the Project, the expiration of the Project HAP Contract (without renewal or replacement) would have a material adverse impact on the ability of the Project to generate revenues sufficient to pay the principal of and interest on the Mortgage Note. In addition, contract rents available upon any renewal of the Project HAP Contract may be significantly lower than the current Section 8 contract rents in the Project, and the corresponding reduction in housing assistance payments for the Project would materially adversely affect the ability of the Mortgagor to pay the principal of and interest on the Mortgage Note. Failure to make timely payments on principal of and interest on the Mortgage Note constitutes an event of default under the Credit Agreement and may, at the option of the Bank, result in a mandatory tender or redemption in whole or in part of the 2004 Bonds. See “DESCRIPTION OF THE 2004 BONDS - Credit Issuer’s Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination” and “Redemption of 2004 Bonds - Mandatory - Mandatory Redemption Upon a Declaration of Acceleration - Following an Event of Termination” and “SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT” herein. See also Appendix D - “Description of the Section 8 Program.”

The Mortgagor’s only asset is the Project and its partners have no personal liability to the Bond owners. The partners have not pledged any of their respective assets to the Bond owners, other than the Project and its rents, profits and proceeds.

## THE PROJECT AND THE MORTGAGOR

The following information has been provided by the Mortgagor for use herein. While the information is believed to be reliable, neither the Corporation, the Bank, the Underwriter nor any of their respective counsel, members, directors, officers or employees makes any representations as to the accuracy or sufficiency of such information.

### The Project

The 2004 Bonds are being issued to finance the Mortgage Loan to St. Ann's 350 Limited Partnership (the "Mortgagor") for the purpose of paying a portion of the costs of acquiring and renovating an existing multi-family rental housing facility located at 350 St. Ann's Avenue in the Borough of the Bronx, in the City of New York (the "Project").

The Project is expected to consist of approximately 190 units (55 one-bedroom units, 105 two-bedroom units and 30 three-bedroom units) in a single eight-story building, plus one two-bedroom unit expected to be occupied by a superintendent. All of the residential units (excluding the superintendent's unit) are expected to be occupied by households whose gross income will not exceed 60% of the area median income for New York City, adjusted for family size (the "Low Income Units").

Upon acquiring the Project, the Mortgagor expects to renovate portions of both the interior and exterior of the Project. Exterior improvements are anticipated to include roof replacement, window repair and replacement, equipping of a playground and leveling and paving of parking lots. Interior improvements are anticipated to include kitchen and bathroom remodeling (including some appliance replacement), electrical and plumbing upgrades, elevator infrastructure replacement, repair and replacement of HVAC systems and improvement of entry-ways and security systems and equipment.

Pursuant to a Purchase and Sale Agreement, dated as of December 8, 2004, it is anticipated that TC Housing Development Fund Company, Inc. ("TCHDFC"), a New York not-for-profit corporation formed under Article XI of Private Housing Finance Law of the State of New York, will acquire, subject to the terms and conditions of such agreement, a fee simple interest in the Project, as nominee for the Mortgagor, from the current owner of the Project, Thessalonica Court Associates. TCHDFC will, in turn, convey all of its beneficial and equitable interest in the Project to the Mortgagor pursuant to the terms and conditions of a Declaration of Interest and Nominee Agreement. Based in part upon TCHDFC's interest in the Project, the Mortgagor applied for a 30-year partial exemption from real estate taxes for the Project in accordance with Section 577 of the Private Housing Finance Law of the State of New York. On December 15, 2004, the City Council of the City of New York approved such partial exemption from real estate taxes.

In addition, the Mortgagor expects to receive an allocation of low-income housing tax credits for the Project, the proceeds from the syndication of which the Mortgagor expects to apply to pay a portion of the costs of acquiring and renovating the Project, as well as specified soft costs.

All units in the Project are subject to and benefit from project-based rent subsidies derived under the Project HAP Contract, which, if not renewed, will expire in January 2006. Although the Mortgagor expects to apply for an extension of the Project HAP Contract upon its acquisition of the Project, there is no certainty as to whether such extension will be granted or the number of units, if any, in the Project that will continue to benefit from such project-based rent subsidies after January 2006. Failure to obtain a renewal of the Project HAP Contract would necessitate a mandatory tender or redemption of 2004 Bonds in an amount greater than currently anticipated, as a result of which the Mortgagor and its affiliates would be required to, among other things, defer the payment of development fees.

The general contractor for the Project will be Jericho Services, Inc., which is expected to enter into a fixed price construction contract with the Mortgagor. The principal of Jericho Services, Inc. is Leonard D'Amico. The management agent for the Project will be The Wavecrest Management Team Ltd., which is expected to enter into a

management agreement with the Mortgagor. The principals of The Wavecrest Management Team Ltd. are Frederick J. Camerata, Susan Camerata and Robert E. Drummond.

There is currently litigation pending (in New York Supreme Court, Nassau County) that names Thessalonica Court Associates (the seller of the Project) (the "Partnership") and San James Realty Corp. (the Managing General Partner of the Partnership) ("GP") as defendants, based on a claim that the Partnership failed to make appropriate distributions to JK&E Partnership, a creditor of Glick Development Affiliates, a limited partner in the Partnership ("Limited Partner"). The plaintiff, JK&E Partnership, alleges that it is entitled to the Limited Partner's income from the Partnership. The plaintiff's claim to the Limited Partner's income is derived from a transaction that is not related in any manner to the Project. In a separate transaction, the Limited Partner pledged its income interest in the Partnership as collateral for a non-project related loan and subsequently defaulted on the loan. There is no current lien on the Project from this litigation and it is a condition of the closing that the Mortgagor provide title insurance on the Mortgagor's beneficial ownership interest in the Project. The Mortgagor believes that this claim does not affect the Project and is a liability of the Partnership and/or the GP and that the liabilities of the Partnership will not transfer with the conveyance of the Project to the Mortgagor. However, in the event that the Mortgagor is named in any subsequent litigation related to the aforementioned litigation, the Mortgagor has provided for funds to be deposited in an escrow account with GP's counsel, sufficient to pay for the current claim and reasonable legal fees.

#### The Mortgagor

The Mortgagor is a single-purpose New York limited partnership formed solely for the purpose of acquiring and renovating the Project. As such, the Mortgagor has not previously engaged in any business operations, has no historical earnings and has no assets other than its interest in the Project. Accordingly, it is expected that the Mortgagor will not have any sources of funds to make payments on the Mortgage Loan other than as described herein and revenues generated by the Project.

The general partner of the Mortgagor is St. Ann's Developers 350, LLC, a New York limited liability company, which will possess an approximate .01% ownership interest in the Mortgagor. The members of St. Ann's Developers 350, LLC are TCHDFC, ONY Thessalonica, LLC, a New York limited liability company, Mill Plain Properties, LLC, a New York limited liability company, and D&F Development XI, LLC, a New York limited liability company. The sole member of ONY Thessalonica, LLC is Omni New York LLC, a New York limited liability company. The members of Omni New York LLC are Maurice S. Vaughn and Eugene Schneur. The members of Mill Plain Properties, LLC are an affiliate of the principals of Alliant Capital, Inc. and 39 Mill Plain Development, LLC, a Connecticut limited liability company. The sole member of 39 Mill Plain Development, LLC is Robert Bennett. The members of D&F Development XI, LLC are Leonard D'Amico and Peter Florey. A limited partner of the Mortgagor is expected to be a private low-income housing tax credit investor affiliated with Alliant Capital, Inc., which will provide an equity investment in the Mortgagor in exchange for an approximate 99.99% limited partner interest in the Mortgagor.

The above principals have over 50 years of aggregate experience developing affordable and market-rate multi-family rental housing and, during that time, have been involved in the development of more than 5,000 units of affordable and market-rate multi-family rental housing in the City of New York metropolitan area.

#### **THE LETTER OF CREDIT BANK**

Citibank, N.A. ("Citibank") was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864. Citibank is a wholly-owned subsidiary of Citicorp, a Delaware corporation ("Citicorp"), and is Citicorp's principal subsidiary. Citicorp is an indirect wholly-owned subsidiary of Citigroup Inc., a Delaware holding company ("Citigroup"). The obligations of Citibank under the Letter of Credit will not be guaranteed by Citicorp or Citigroup. As of September 30, 2004, the total assets of Citibank and its consolidated subsidiaries represented approximately 72% of the total assets of Citicorp and its consolidated subsidiaries.

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

As a national bank, Citibank is a regulated entity permitted to engage only in banking and activities incidental to banking. Citibank's earnings may be affected by certain monetary policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Citibank is primarily regulated by the Office of the Comptroller of the Currency (the "Comptroller"), which also examines its loan portfolios and reviews the sufficiency of its allowance for credit losses.

Citibank's deposits at its U.S. branches are insured by the Federal Deposit Insurance Corporation (the "FDIC") and are subject to FDIC insurance assessments. The Letter of Credit is not insured by the FDIC or any other regulatory agency of the United States or any other jurisdiction. Citibank may, under certain circumstances, be obligated for the liabilities of its affiliates that are FDIC-insured depository institutions. Citibank's FDIC-insured depository affiliates include: Citibank Delaware; Citibank, Federal Savings Bank; Citibank (Nevada), National Association; Citibank (South Dakota), National Association; Citibank (West), FSB; Citicorp Trust Bank, FSB; Universal Financial Corp.; Associates Capital Bank, Inc.; California Commerce Bank; and Citibank USA, National Association.

Legislation enacted as part of the Omnibus Budget Reconciliation Act of 1993 provides that deposits in U.S. offices and certain claims for administrative expenses and employee compensation against a U.S. insured depository institution which has failed will be afforded a priority over other general unsecured claims, including deposits in non-U.S. offices and claims under non-depository contracts in all offices, against such an institution in the "liquidation or other resolution" of such an institution by any receiver. Such priority creditors (including the FDIC, as the subrogee of insured depositors) of such FDIC-insured depository institution will be entitled to priority over unsecured creditors in the event of a "liquidation or other resolution" of such institution.

As conservator or receiver for an insured depository institution, the FDIC also may disaffirm or repudiate any burdensome contract to which such institution is a party. The FDIC has not taken the position that such repudiation would impair the right of a holder of an unsecured obligation, such as the beneficiary of the Letter of Credit, to claim principal and interest accrued through the date of appointment of a conservator or receiver. (The amount paid on such a claim would depend on the amount of assets in the receivership and the relative priority of the claim.) Disaffirmance or repudiation could, at a minimum, expose the beneficiary of the Letter of Credit to reinvestment risk.

As conservator or receiver, the FDIC is also empowered to enforce most types of contracts, including the Letter of Credit, pursuant to their terms notwithstanding any acceleration provisions therein, and may transfer to a new obligor any of Citibank's assets or liabilities, including the Letter of Credit, without the approval or consent of Citibank's creditors.

The FDIC is authorized to settle all uninsured and unsecured claims in the insolvency of an insured bank by making a final settlement payment at a percentage rate reflecting an average of the FDIC's receivership recovery experience and constituting full payment and disposition of the FDIC's obligation to uninsured and unsecured creditors.

The Basel Committee on Banking Supervision (the "Basel Committee"), consisting of central banks and bank supervisors from 13 countries, has developed a new set of risk-based capital standards (the "New Accord"), on which it has received significant input from Citibank and other major banking organizations. The Basel Committee published the text of the New Accord on June 26, 2004. The Basel Committee has added an additional year of impact analysis and parallel testing for banks adopting the advanced approaches, with implementation extended until year-end 2007. The U.S. banking regulators issued an advance notice of proposed rulemaking in August 2003 to address issues in advance of publishing their proposed rules incorporating the new Basel standards. The final version of these rules will apply to Citibank and other large U.S. banks and bank holding companies. Citibank is assessing the impact of the proposed new capital standards, while continuing to participate in efforts to refine the U.S. standards and monitor the progress of related Basel initiatives.

On July 20, 2004, the federal banking and thrift regulatory agencies issued the final rule on capital requirements for asset-backed commercial paper (ABCP) programs. The final rule, which generally became effective September 30, 2004, increased the capital requirement on most short-term liquidity facilities that provide support to ABCP programs by imposing a 10% credit conversion factor on such facilities. Additionally, the final

rule permanently excludes ABCP program assets consolidated under FIN 46-R and any minority interests from the calculation of risk-weighted assets and Tier 1 Capital, respectively. The denominator of the Tier 1 leverage ratio calculation remains unaffected by the final rule, as the risk-based capital treatment does not alter the reporting of the on-balance sheet assets under GAAP guidelines.

The Annual Report on Form 10-K of Citicorp and its subsidiaries for the year ended December 31, 2003 (the "2003 10-K"), and the Quarterly Report on Form 10-Q of Citicorp and its subsidiaries for the quarter ended September 30, 2004 (the "September 2004 10-Q") sets forth certain data relative to the consolidated financial position of Citibank and its subsidiaries as of September 30, 2004 and December 31, 2003.

The Consolidated Balance Sheets of Citibank as of December 31, 2003 and as of December 31, 2002 are set forth on page 53 of the 2003 10-K and as of September 30, 2004 and December 31, 2003 are set forth on page 55 of the September 2004 10-Q. Consolidated Balance Sheets of Citibank subsequent to September 30, 2004 will be included in the Form 10-Q's (quarterly) and Form 10-K's (annually) subsequently filed by Citicorp with the Securities and Exchange Commission (the "SEC"), which will be filed not later than 45 days after the end of the calendar quarter or 90 days after the end of the calendar year to which the report relates, or on Form 8-K with respect to certain interim events. For further information regarding Citibank, reference is made to the September 2004 10-Q and to any subsequent reports on Forms 10-K, 10-Q or 8-K filed by Citicorp with the SEC, which are incorporated herein by reference. Copies of such material may be obtained, upon payment of a duplicating fee, by writing to the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the operation of the public reference rooms. In addition, such reports are available at the SEC's web site (<http://www.sec.gov>).

In addition, Citibank submits quarterly to the Comptroller certain reports called "Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices" ("Call Reports"). The Call Reports are on file with and publicly available at the Comptroller's offices at 250 E Street, S.W., Washington, D.C. 20219 and are also available on the web site of the FDIC (<http://www.fdic.gov>). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Citibank, the reports nevertheless provide important information concerning the financial condition and results of operations of Citibank. Citibank's Call Report as of the close of business on September 30, 2004 is incorporated herein by reference. Any subsequent Call Reports filed by Citibank with the Comptroller are incorporated herein by reference.

Any of the above reports incorporated herein by reference are available upon request, without charge, by writing or calling Citigroup Document Services, 140 58th Street, Brooklyn, New York 11220, (718) 765-6514.

None of such information or any of the statements referred to in the preceding paragraphs under this heading "Letter of Credit Bank" is guaranteed as to accuracy or completeness by the Corporation, the Underwriter or the Mortgagor, or is to be construed as a representation by the Corporation, the Underwriter or the Mortgagor. Furthermore, neither the Corporation, the Underwriter nor the Mortgagor makes any representations as to the financial condition or resources of Citibank or as to the absence of material adverse changes subsequent to September 30, 2004 in such information or in the information contained in the statements referred to above.

## **DESCRIPTION OF THE 2004 BONDS**

### General

The 2004 Bonds are to be dated and will mature as set forth on the cover page of this Official Statement. The 2004 Bonds will bear interest from the date of their delivery until payment of the principal thereof is made or provided for in accordance with the provisions of the Resolution, whether at maturity on January 1, 2036, upon redemption or otherwise. The 2004 Bonds are being issued as variable rate obligations which will bear interest from their date of issue to but not including the Wednesday following said date of issue at a rate per annum set forth in a



certificate of the Corporation delivered on the date of issuance of the 2004 Bonds. Thereafter, the 2004 Bonds will bear interest initially at the Weekly Rate as determined from time to time by the Remarketing Agent. At no time shall the interest rate on the 2004 Bonds exceed the Maximum Rate. The 2004 Bonds are subject to conversion to alternate methods of determining interest rates thereon from time to time and to conversion to an interest rate fixed to maturity upon the terms and conditions described herein.

*This Official Statement in general describes the 2004 Bonds only while the 2004 Bonds bear interest at a Weekly Rate.*

The 2004 Bonds shall be issued solely in fully registered form, without coupons, issuable during a Weekly Rate Period in the denomination of \$100,000 or any \$5,000 increment in excess of \$100,000.

Interest on the 2004 Bonds shall be payable on a monthly basis on the first Business Day of each month, commencing February, 2005, on any Change Date and on the final maturity date of the 2004 Bonds. Interest on the 2004 Bonds shall be computed on the basis of a 365 or 366-day year, actual number of days elapsed.

### Book-Entry Only System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the 2004 Bonds. The 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2004 Bond certificate will be issued for the 2004 Bonds, in the aggregate principal amount of the 2004 Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission.

Purchases of 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 2004 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2004 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, 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 or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004 Bonds, except in the event that use of the book-entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized

representative of DTC. The deposit of 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2004 Bond documents. For example, Beneficial Owners of 2004 Bonds may wish to ascertain that the nominee holding the 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the 2004 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2004 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2004 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or Trustee on the 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 Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2004 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2004 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2004 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of the 2004 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2004 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2004 Bonds to the Tender Agent's DTC Account.

DTC may discontinue providing its services as securities depository with respect to the 2004 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such 2004 Bond certificates are required, pursuant to the Resolution, to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2004 Bond certificates will be printed and delivered.

**The above information concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation and the Underwriter believe to be reliable, but neither the Corporation nor the Underwriter takes responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the Direct Participants or Indirect Participants.**

So long as Cede & Co. is the registered owner of the 2004 Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the 2004 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2004 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

Notwithstanding any other provision of the Resolution to the contrary, so long as any 2004 Bond is held in book-entry form, such 2004 Bond need not be delivered in connection with any optional or mandatory tender of 2004 Bonds described under "DESCRIPTION OF THE 2004 BONDS." In such case, payment of the Purchase Price in connection with such tender shall be made to the registered owner of such 2004 Bonds on the date designated for such payment, without further action by the Beneficial Owner who delivered notice, and, notwithstanding the description of optional and mandatory tender of 2004 Bonds contained under "DESCRIPTION OF THE 2004 BONDS," transfer of beneficial ownership shall be made in accordance with the procedures of DTC.

NEITHER THE CORPORATION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2004 BONDS UNDER THE RESOLUTION; (iii) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2004 BONDS; (iv) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2004 BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE 2004 BONDS; OR (vi) ANY OTHER MATTER.

#### Interest Rate Periods

Weekly Rate Period. The 2004 Bonds shall bear interest at the Weekly Rate determined in accordance with the Resolution, during the period from the date of initial issuance and delivery of the 2004 Bonds to the earlier of the first Interest Method Change Date or the final maturity or redemption in whole of the 2004 Bonds.

The Weekly Rate shall be the lowest interest rate, not exceeding the Maximum Rate, which, in the determination of the Remarketing Agent as of the date of determination and under prevailing market conditions, would result as nearly as practicable in the market price for the 2004 Bonds on the Weekly Effective Rate Date being one hundred percent (100%) of the principal amount thereof, such interest rate to be determined as follows. The Remarketing Agent shall determine the Weekly Rate not later than 12:00 p.m. (noon), New York City time, on the Weekly Effective Rate Date for each Weekly Rate Term; provided, however, that the Weekly Rate from the date of initial issuance and delivery of the 2004 Bonds to but not including the Wednesday following said date of issue shall be the rate for the 2004 Bonds determined by the Corporation and delivered in writing to the Trustee on the date of such issuance and delivery. The Remarketing Agent shall promptly give notice of the determination of any Weekly Rate to the Corporation, the Mortgagor, the Trustee, the Tender Agent and the Credit Issuer by telecopy or other similar means of electronic communication or by such other method of communication as shall be mutually agreed upon by the Remarketing Agent and the recipients of such notice.

On the Business Day immediately following (i) the issuance and delivery of the 2004 Bonds and (ii) the establishment of any subsequent Weekly Rate Period, the Trustee shall deliver or mail by first-class mail, postage prepaid or by facsimile transmission or other similar electronic means, to the owner of each 2004 Bond, at the address shown on the registration books of the Corporation held by the Trustee, a notice stating the Weekly Rate to be borne by the 2004 Bonds, and that from and after the Weekly Effective Rate Date the 2004 Bonds will bear interest at the Weekly Rate for the duration of the Weekly Rate Period. Such notice shall further specify the name, address and telephone number of the person or persons from whom information with respect to the Weekly Rate for each succeeding Weekly Rate Term may be obtained. Unless an Interest Method Change Date occurs, a new Weekly Rate Term shall automatically commence on the day after the termination of the current Weekly Rate Term.

If for any reason the position of the Remarketing Agent is vacant, or if the Remarketing Agent fails in the performance of its duty to determine the Weekly Rate for any Weekly Rate Term or the Weekly Rate is held to be invalid or unenforceable by a court of law, as set forth in a written notice from the Corporation to the Trustee, the Weekly Rate for such Weekly Rate Term shall be determined by the Trustee and shall be one hundred percent (100%) of the most recent The Bond Market Association Municipal Swap Index™ theretofore published in the Bond Buyer or otherwise made available to the Trustee.

Interest Rate Changes. No change in the method of determining the interest rate on the 2004 Bonds shall be made unless the Trustee has received, at least thirty (30) days prior to the Change Date, (1) a Certificate of an Authorized Officer of the Mortgagor specifying (i) the date which is to be the Interest Method Change Date, and (ii) the method of determining the interest rate which shall take effect on such date, (2) a Certificate of an Authorized Officer of the Credit Issuer, evidencing consent to such change by the Credit Issuer if a Credit Facility is then in effect and, if necessary, an amendment to such Credit Facility conforming such Credit Facility to the requirements of the Resolution applicable to such instrument from and after the Interest Method Change Date, together with various opinions of counsels as set forth in the Resolution, or provision for the issuance of a Substitute Letter of Credit or Alternate Security meeting the requirements of the Resolution, in which case the Interest Method Change Date shall also be a Facility Change Date, (3) an opinion of Bond Counsel to the effect that the proposed change in the method of determining the interest rate on the 2004 Bonds is consistent with the provisions of the Resolution and will not adversely affect the exclusion of the interest on the Bonds from gross income for Federal income tax purposes, and (4)(i) permission from Bond Counsel, the opinion of which as to the exclusion from gross income for Federal income tax purposes of interest on the 2004 Bonds is on file with the Trustee, to deliver such opinion in connection with the 2004 Bonds, or (ii) an opinion from Bond Counsel as described in the Resolution to the effect that the interest on the 2004 Bonds is not included in gross income for Federal income tax purposes.

#### Purchase of the 2004 Bonds on Demand of Owner

Each owner of a 2004 Bond may by delivery of a written, personal, electronic or telephonic notice of tender to the principal offices of the Tender Agent at 101 Barclay Street, Floor 21W, Attention: New York Municipal Finance Unit, New York, New York 10286 (or such other address as may be established by the Tender Agent from time to time), and the Remarketing Agent at 390 Greenwich Street, 2nd Floor, New York, New York 10013 (or such other address as may be established by the Remarketing Agent from time to time) prior to 5:00 p.m., New York City time, on any Business Day not less than seven calendar days before the particular Business Day chosen as the purchase date, demand payment of the Purchase Price on and as of such purchase date of all or a portion of the 2004 Bonds, in any denomination authorized by the Resolution; provided, however, that no 2004 Bonds shall be purchased unless any remaining 2004 Bonds of such owner are in a denomination authorized by the Resolution. Each such notice of tender shall be irrevocable and effective upon receipt and shall:

- (i) be delivered to the Tender Agent and the Remarketing Agent at their respective Principal Offices and be in a form satisfactory to the Tender Agent; and
- (ii) state (A) the aggregate principal amount of the 2004 Bonds to be purchased and the numbers of such 2004 Bonds to be purchased, and (B) the date on which such 2004 Bonds are to be purchased, which date shall be a Business Day not prior to the seventh (7th) day next succeeding the date of delivery of such notice and which date will be prior to any Change Date.

If any 2004 Bonds are to be purchased prior to an Interest Payment Date and after the Record Date in respect thereof, the owner of such 2004 Bond demanding purchase thereof shall deliver to the Tender Agent a due bill check, payable to bearer, for interest due on such Interest Payment Date.

Any 2004 Bonds for which a demand for purchase has been made shall be delivered to the Tender Agent as agent for the Credit Issuer at or prior to 12:00 noon, New York City time, on the date designated for purchase, with an appropriate endorsement for transfer or accompanied by a bond power endorsed in blank.

Any 2004 Bonds not so delivered to the Tender Agent (“Undelivered 2004 Bonds”) on or prior to the purchase date for which there has been irrevocably deposited in trust with the Trustee or the Tender Agent an

amount of moneys sufficient to pay the Purchase Price of such Undelivered 2004 Bonds shall be deemed to have been purchased at the Purchase Price. IN THE EVENT OF A FAILURE BY AN OWNER OF AFFECTED 2004 BONDS TO DELIVER ITS AFFECTED 2004 BONDS ON OR PRIOR TO THE PURCHASE DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE PURCHASE DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNDELIVERED 2004 BONDS, AND ANY UNDELIVERED 2004 BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE RESOLUTION EXCEPT FOR THE PAYMENT OF THE PURCHASE PRICE THEREFOR.

Notwithstanding the above, in the event that any 2004 Bond whose owner has exercised its demand purchase option is remarketed to such owner, such owner need not deliver such 2004 Bond to the Tender Agent, but such 2004 Bond shall be deemed to have been delivered to the Tender Agent and redelivered to such owner.

#### Mandatory Purchase of 2004 Bonds on Interest Method Change Date

The 2004 Bonds shall be subject to mandatory tender for purchase on any Interest Method Change Date at the Purchase Price. The Trustee shall deliver, or mail by first class mail, postage prepaid, to the Remarketing Agent and to the owner of each 2004 Bond, at its address shown on the registration books of the Corporation held by the Trustee, a notice not later than fifteen (15) days prior to the Interest Method Change Date. Any notice given in such manner shall be conclusively presumed to have been duly given, whether or not the owner receives such notice. Such notice shall set forth, in substance, the Interest Method Change Date and reason therefor, that such owners of 2004 Bonds shall be deemed to have tendered their 2004 Bonds for purchase on the Interest Method Change Date, and the Purchase Price for such 2004 Bonds.

Owners of 2004 Bonds shall be required to tender their 2004 Bonds to the Tender Agent for purchase at the Purchase Price on the Interest Method Change Date with an appropriate endorsement for transfer to the Tender Agent, or accompanied by a bond power endorsed in blank. Any Undelivered 2004 Bonds for which there has been irrevocably deposited in trust with the Trustee or Tender Agent an amount of moneys sufficient to pay the Purchase Price of such Undelivered 2004 Bonds shall be deemed to have been purchased at the Purchase Price on the Interest Method Change Date. IN THE EVENT OF A FAILURE BY AN OWNER OF 2004 BONDS TO DELIVER ITS 2004 BONDS ON OR PRIOR TO THE INTEREST METHOD CHANGE DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE INTEREST METHOD CHANGE DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNDELIVERED 2004 BONDS, AND ANY UNDELIVERED 2004 BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE RESOLUTION, EXCEPT FOR THE PAYMENT OF THE PURCHASE PRICE THEREFOR.

#### Mandatory Purchase of 2004 Bonds Upon Replacement, Termination or Expiration of Credit Facility

On any Facility Change Date the 2004 Bonds are subject to mandatory tender for purchase at the Purchase Price. In connection with a purchase on a Facility Change Date, the Trustee shall deliver, or mail by first class mail, postage prepaid, a notice not later than fifteen (15) days prior to the Facility Change Date to the Remarketing Agent and to the owner of each 2004 Bond at its address shown on the registration books of the Corporation held by the Trustee. Any notice given in such manner shall be conclusively presumed to have been duly given, whether or not the owner receives such notice. Such notice shall set forth, in substance, the Facility Change Date and reason therefor, that all owners of 2004 Bonds shall be deemed to have tendered their 2004 Bonds for purchase on the Facility Change Date, and the Purchase Price for such 2004 Bonds.

Owners of 2004 Bonds shall be required to tender their 2004 Bonds to the Tender Agent for purchase at the Purchase Price on the Facility Change Date with an appropriate endorsement for transfer to the Tender Agent, or accompanied by a bond power endorsed in blank. Any Undelivered 2004 Bonds for which there has been irrevocably deposited in trust with the Trustee or Tender Agent an amount of moneys sufficient to pay the Purchase Price of the Undelivered 2004 Bonds shall be deemed to have been purchased at the Purchase Price on the Facility Change Date. IN THE EVENT OF A FAILURE BY AN OWNER OF 2004 BONDS TO DELIVER ITS 2004 BONDS ON OR PRIOR TO THE FACILITY CHANGE DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE FACILITY CHANGE

DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNDELIVERED 2004 BONDS, AND ANY UNDELIVERED 2004 BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE RESOLUTION, EXCEPT FOR THE PAYMENT OF THE PURCHASE PRICE THEREFOR.

Mortgagor's Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon a Notice of Prepayment of the Mortgage Loan

Pursuant to the Resolution, upon notice to the Trustee from the Corporation of the Mortgagor's election to prepay, in full, the portion of the Mortgage Loan relating to all of the 2004 Bonds bearing interest at the Weekly Rate (said notice from the Corporation to the Trustee being defined in the Resolution as a "Notice of Prepayment of the Mortgage Loan"), the Corporation shall specify a Change Date on which all the 2004 Bonds bearing interest at the Weekly Rate shall be subject to mandatory tender for purchase, which Change Date shall be the date specified by the Mortgagor for such prepayment of the Mortgage Loan.

Following receipt by the Trustee of such Notice of Prepayment of the Mortgage Loan, the Trustee shall deliver, or mail by first-class mail, postage prepaid, to the Remarketing Agent and to the owner of each 2004 Bond to which such notice relates, at its address shown on the registration books of the Corporation held by the Trustee, a notice not less than fifteen (15) days prior to such Change Date. Any notice given in such manner shall be conclusively presumed to have been duly given, whether or not the owner receives such notice.

Any notice of mandatory tender relating to a Notice of Prepayment of the Mortgage Loan shall set forth, in substance, the Change Date and reason therefor, that all owners of 2004 Bonds shall be deemed to have tendered their 2004 Bonds for purchase on the Change Date and the Purchase Price for the 2004 Bonds. Owners of 2004 Bonds to which a mandatory tender for purchase relates shall be required to tender their 2004 Bonds to the Tender Agent for purchase at the Purchase Price on the Change Date with an appropriate endorsement for transfer to the Tender Agent, or accompanied by a bond power endorsed in blank. Any Undelivered 2004 Bonds for which there has been irrevocably deposited in trust with the Trustee or Tender Agent an amount of moneys sufficient to pay the Purchase Price of the Undelivered 2004 Bonds shall be deemed to have been purchased at the Purchase Price on the Change Date. IN THE EVENT OF A FAILURE BY AN OWNER OF 2004 BONDS TO DELIVER ITS 2004 BONDS ON OR PRIOR TO THE CHANGE DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CHANGE DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNDELIVERED 2004 BONDS, AND ANY UNDELIVERED 2004 BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE RESOLUTION, EXCEPT FOR THE PAYMENT OF THE PURCHASE PRICE THEREFOR.

Upon such prepayment of the Mortgage Loan and payment to the Credit Issuer (other than from the proceeds of the remarketing of the 2004 Bonds so purchased or from moneys on deposit in the Principal Reserve Fund) of all amounts due under the Credit Agreement, all 2004 Bonds tendered or deemed tendered as a result of such prepayment shall be deemed paid and shall be delivered to the Trustee for cancellation.

Credit Issuer's Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination

Pursuant to the Resolution, for so long as the Credit Facility is in effect, upon the receipt by the Trustee of written notice from the Credit Issuer that one or more events of default have occurred under the Credit Agreement (defined in the Resolution as an "Event of Termination"), including, but not limited to, a default under the Mortgage Loan or the Guaranty, a failure to reimburse the Credit Issuer under the Credit Agreement or a failure to complete the Project within the time required by the Credit Agreement, the Credit Issuer may specify a Change Date on which the 2004 Bonds shall be subject to mandatory tender for purchase, which Change Date shall not be later than eight (8) days following receipt by the Trustee of the direction to purchase such 2004 Bonds; provided however, that if the Credit Issuer shall have directed that the mandatory tender for purchase of the 2004 Bonds be for a portion of the 2004 Bonds, only such portion of the 2004 Bonds shall be subject to mandatory tender for purchase by the owners thereof on such Change Date, and the particular 2004 Bonds to be tendered (which shall be in authorized denominations) shall be selected by the Trustee by lot, using such method as it shall determine in its sole discretion, except that the Trustee shall not select any 2004 Bond for tender which would result in any remaining 2004 Bonds

not being in an authorized denomination as provided in the Resolution. Upon receipt of such written notice from the Credit Issuer, the Trustee shall promptly deliver to the Remarketing Agent and to the owner of each affected 2004 Bond a notice of mandatory tender for purchase by overnight express mail or courier service. Any notice given in such manner shall be conclusively presumed to have been duly given, whether or not the owner receives such notice. See "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND CREDIT AGREEMENT" herein.

Any notice of mandatory tender relating to an Event of Termination specified by the Credit Issuer shall set forth, in substance, the Change Date and reason therefor, that all owners of affected 2004 Bonds shall be deemed to have tendered their 2004 Bonds for purchase on the Change Date and the Purchase Price for such 2004 Bonds. Owners of affected 2004 Bonds shall be required to tender their 2004 Bonds to the Tender Agent for purchase at the Purchase Price with an appropriate endorsement for transfer to the Tender Agent, or accompanied by a bond power endorsed in blank. Any Undelivered 2004 Bonds for which there has been irrevocably deposited in trust with the Trustee or Tender Agent an amount of moneys sufficient to pay the Purchase Price of the Undelivered 2004 Bonds shall be deemed to have been purchased at the Purchase Price on the Change Date. IN THE EVENT OF A FAILURE BY AN OWNER OF AFFECTED 2004 BONDS TO DELIVER ITS AFFECTED 2004 BONDS ON OR PRIOR TO THE CHANGE DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CHANGE DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNDELIVERED 2004 BONDS, AND ANY UNDELIVERED 2004 BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE RESOLUTION, EXCEPT FOR THE PAYMENT OF THE PURCHASE PRICE THEREFOR.

#### Additional Provisions Regarding Pledged Bonds

Pursuant to the Resolution, 2004 Bonds for which the Purchase Price is funded with moneys provided under the Credit Facility and which are not remarketed shall become Pledged Bonds. The Credit Facility shall not constitute security or provide liquidity support for Pledged Bonds. Pledged Bonds shall be pledged pursuant to the Pledge Agreement.

Failure to pay interest on Pledged Bonds when due, or failure to pay principal and interest on Pledged Bonds upon any Redemption Date or purchase date or the maturity date of Pledged Bonds, shall not constitute an Event of Default. Upon the maturity date of the 2004 Bonds, or upon any Redemption Date for the redemption in whole of the 2004 Bonds (whether by reason of optional or mandatory redemption) or date of acceleration of the 2004 Bonds, all Pledged Bonds shall be deemed cancelled. Pledged Bonds shall also be cancelled at the direction of the Credit Issuer. At such time as a Pledged Bond is remarketed, the Trustee or the Tender Agent, as appropriate, shall (a) remit the proceeds from the remarketing to the Credit Issuer, and (b) to the extent that the Credit Facility has been reinstated by the amount required as specified in the Resolution, give written notice to the Remarketing Agent, the Mortgagor and the Credit Issuer that such Bond is no longer a Pledged Bond.

#### Provisions Affecting 2004 Bonds if a Change of Method of Determining the Interest Rate Cannot be Effected or if a Credit Facility Cannot be Replaced

In the event of a Facility Change Date or an Interest Method Change Date and following the provision of notice of mandatory purchase of 2004 Bonds, the Trustee receives notice from the Corporation or the Remarketing Agent, as applicable, that a change in the method of determining the interest rate on the 2004 Bonds cannot be effected, or a Credit Facility that was to be replaced cannot be replaced, the Change Date shall be cancelled, unless the prior Credit Facility is expiring within sixty (60) days after the Change Date. The Trustee shall promptly deliver or mail by first class mail, postage prepaid, a notice to the owners of the 2004 Bonds stating that such change shall not occur and the reasons therefor.

#### Changes of Time Period for Provision of Notice Relating to Mandatory Purchase Provision or Demand Purchase Option

The Resolution provides that it is subject to amendment and supplement by a Supplemental Resolution, from time to time, to effect a change with respect to the time periods for provision of notice relating to the

Mandatory Purchase Provision, Demand Purchase Option or interest rate determination or the time periods for interest rate determination or the procedure for tendering 2004 Bonds in connection with the Mandatory Purchase Provision or Demand Purchase Option, which Supplemental Resolution may be adopted and become effective (i) upon filing of a copy thereof certified by an Authorized Officer of the Corporation with the Trustee, (ii) upon filing with the Trustee and the Corporation of a consent to such Supplemental Resolution executed by the Trustee, and (iii) if such Supplemental Resolution is to effect a change with respect to the time periods for provision of notice relating to the Mandatory Purchase Provision, Demand Purchase Option or interest rate determination or the time periods for interest rate determination or the procedure for tendering 2004 Bonds in connection with the Mandatory Purchase Provision or Demand Purchase Option, after such period of time as the Trustee and the Corporation deem appropriate following notice to the 2004 Bond owners (but not less than thirty (30) days). A copy of any such Supplemental Resolution shall be provided to the owners of the 2004 Bonds.

#### Delivery of 2004 Bonds in Book-Entry-Only Form

Notwithstanding any other provision of the Resolution to the contrary, so long as any 2004 Bond is held in book-entry form, such 2004 Bond need not be delivered in connection with any optional or mandatory tender of 2004 Bonds described under “DESCRIPTION OF THE 2004 BONDS.” In such case, payment of the Purchase Price in connection with such tender shall be made to the registered owner of such 2004 Bonds on the date designated for such payment, without further action by the Beneficial Owner who delivered notice, and transfer of beneficial ownership shall be made in accordance with the procedures of DTC. See “DESCRIPTION OF THE 2004 BONDS—Book-Entry-Only System” herein.

#### Redemption of 2004 Bonds - Mandatory

Mandatory Redemption From Certain Recoveries of Principal and Other Moneys. The 2004 Bonds shall be subject to mandatory redemption, in whole or in part, at any time prior to maturity, in an amount not in excess of any Recoveries of Principal (other than the advance payment in full of all amounts to become due pursuant to the Mortgage Loan, at the option of the Mortgagor, with moneys other than amounts transferred from the Principal Reserve Fund with respect to the portion of the Mortgage Loan relating to the 2004 Bonds bearing interest at the Weekly Rate) at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds or portions thereof to be redeemed plus accrued interest to the Redemption Date.

Mandatory Redemption on Bankruptcy of Credit Issuer. The 2004 Bonds are subject to mandatory redemption in whole at any time prior to maturity, if, within 30 days after an Act of Bankruptcy of the Credit Issuer, the Trustee has not received a new Credit Facility, at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds to be redeemed, plus accrued interest to the Redemption Date.

#### Mandatory Redemption Upon a Declaration of Acceleration.

Following an Event of Default. The 2004 Bonds are subject to mandatory redemption, in whole, without notice, upon a declaration of acceleration by the Trustee as a remedy for an Event of Default under the Resolution at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds to be redeemed, plus accrued interest thereon to the Redemption Date (which Redemption Date shall be the date of such declaration of acceleration).

Following an Event of Termination. The 2004 Bonds are subject to mandatory redemption, in whole or in part, without notice, upon a declaration of acceleration by the Trustee as a remedy for an Event of Termination under the Resolution at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds or portions thereof to be so redeemed, plus accrued interest to the Redemption Date (which Redemption Date shall be the date of such declaration of acceleration).

Mandatory Redemption from Certain Transfers from Principal Reserve Fund. The 2004 Bonds are subject to mandatory redemption, in whole or in part, on the first Business Day of January of each year if and to the extent amounts in excess of the Principal Reserve Amount are transferred from the Principal Reserve Fund to the Redemption Account on the immediately preceding December 1 (or, if such day is not a Business Day, the next



succeeding Business Day). (See SECURITY FOR THE BONDS – Principal Reserve Fund” and “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Principal Reserve Fund”). Each such redemption will be at a Redemption Price equal to 100% of the principal amount of such 2004 Bonds or portions thereof to be redeemed plus accrued interest to the Redemption Date.

Mandatory Redemption Following a Determination of Taxability. The 2004 Bonds shall be subject to mandatory redemption, in whole, as soon as practicable after the occurrence of a “Determination of Taxability” at a Redemption Price equal to 100% of the aggregate principal amount of the 2004 Bonds to be redeemed plus accrued interest to the Redemption Date. A “Determination of Taxability” with respect to the 2004 Bonds shall be deemed to occur if there shall be a final decree or judgment of a Federal court, or a final determination by the Internal Revenue Service for which all appeal or challenge periods have expired without challenge or appeal having been instituted, to the effect that the interest paid or payable on any 2004 Bond is or was includable in the gross income of the owner of such 2004 Bond for Federal income tax purposes, other than as a result of the owner of such 2004 Bond being a “substantial user” of the facilities financed by the 2004 Bonds or a “related person” within the meaning of the Code.

#### Redemption of 2004 Bonds - Optional

Optional Redemption. The 2004 Bonds shall be subject to redemption, at the option of the Corporation, in whole or in part, at any time, at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds or portions thereof to be so redeemed plus accrued interest to the Redemption Date.

Special Redemption Without Premium. The 2004 Bonds are subject to redemption, at the option of the Corporation, in whole or in part, at any time prior to maturity, in an amount not in excess of (i) amounts on deposit in the Bond Proceeds Account representing unexpended amounts allocable to the 2004 Bonds that are not used to finance the Mortgage Loan and (ii) any other moneys made available under the Resolution in connection with the redemption described in (i) above, at a Redemption Price equal to 100% of the principal amount of the 2004 Bonds or portions thereof to be so redeemed, plus interest accrued thereon to the Redemption Date.

#### Selection of 2004 Bonds to be Redeemed

In connection with any redemption of the 2004 Bonds in part, the Trustee, after first selecting for redemption any 2004 Bonds pledged to the Credit Issuer, shall select the remaining 2004 Bonds or portions thereof to be redeemed by lot in such manner as the Trustee may determine. For so long as the Credit Facility shall be in effect, (i) the first 2004 Bonds to be redeemed shall be Pledged Bonds of such Series and (ii) no 2004 Bond shall be selected for redemption if the portion of such 2004 Bond remaining after such redemption would not be a denomination authorized by the Resolution.

#### Notice of Redemption

When the Trustee receives notice from the Corporation of its election or direction to redeem the 2004 Bonds, or is required pursuant to the Resolution to redeem the 2004 Bonds, the Trustee is to give notice, in the name of the Corporation, of the redemption of such 2004 Bonds. Such notice is to specify, among other things, the 2004 Bonds to be redeemed, the Redemption Price, the Redemption Date, any conditions precedent to such redemption and the place or places where amounts due upon such redemption will be payable. The Trustee is to mail a copy of such notice, postage prepaid, to the registered owners of any 2004 Bonds or portions of 2004 Bonds which are to be redeemed, at their last addresses appearing upon the registry books not less than fifteen (15) days before the Redemption Date. The foregoing provisions of this paragraph do not apply in the case of any redemption of 2004 Bonds for which, pursuant to the Resolution, notice is not required to be given. If the conditions precedent to the redemption, if any, have been satisfied, interest shall cease to accrue and be payable on the 2004 Bonds after the Redemption Date if notice has been given, or is not required to be given, and if sufficient moneys have been deposited with the Trustee to pay the applicable Redemption Price and interest on the 2004 Bonds on such date. So long as the 2004 Bonds are in book-entry form, notice of redemption shall be given to Cede & Co., as nominee for DTC. See “DESCRIPTION OF THE 2004 BONDS—Book-Entry-Only System.”

### Corporation's Right to Purchase

The Corporation retains the right to purchase the 2004 Bonds at such times, in such amounts and at such prices less than or equal to par as the Corporation shall determine, subject to the provisions of the Resolution, and thereby reduce its obligations, if any, for the 2004 Bonds.

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

The proceeds of the 2004 Bonds will be used to fund the Mortgage Loan to the Mortgagor in the principal amount equal to the principal amount of the 2004 Bonds, which amount will be used to finance a portion of the costs of the acquisition and renovation of the Project and to pay certain costs of issuance of the 2004 Bonds, including the Underwriter's fee in an amount equal to \$62,270. Subject to satisfying certain conditions specified in the Resolution and the Credit Agreement, the Mortgagor expects to draw approximately \$15,415,080 of the Mortgage Loan upon the issuance of the 2004 Bonds and approximately \$4,084,920 from time to time thereafter.

To the extent any proceeds of the 2004 Bonds are not used to fund the Mortgage Loan, a portion of the 2004 Bonds may be redeemed. See "DESCRIPTION OF THE 2004 BONDS – Redemption of 2004 Bonds – Optional – Special Redemption Without Premium" herein.

### **SECURITY FOR THE BONDS**

#### Pledge of the Resolution

The Resolution constitutes a contract among the Corporation, the Trustee and the owners of the Bonds issued thereunder and its provisions are for the equal benefit, protection and security of the owners of all such Bonds, each of which, regardless of the time of issue or maturity, is to be of equal rank without preference, priority or distinction except as provided in the Resolution.

The Bonds are special obligations of the Corporation payable from the Revenues and amounts on deposit in the Accounts (other than amounts deposited in or to be deposited in the Rebate Fund) as described herein. In addition, the 2004 Bonds are payable from amounts obtained under the Credit Facility. Payment of the principal or Redemption Price of and interest on all Bonds is secured by a pledge of Revenues, which consists of all payments received by the Corporation from or on account of the Mortgage Loan, including scheduled, delinquent and advance payments of principal and interest, proceeds from the sale, assignment, or other disposition of the Mortgage Loan in the event of a default thereon, proceeds of any insurance or condemnation award, and income derived from the investment of funds held by the Trustee in Accounts established under the Resolution, including earnings and gains received by the Trustee pursuant to any investment agreement. Revenues do not, however, include any administrative or financing fee paid to the Corporation, other escrow deposits or financing, extension, late charges or settlement fees on account of the Mortgage Loan. Payment of the Bonds is also secured by a pledge by the Corporation of the rights and interest of the Corporation in all amounts held in any Accounts (other than amounts deposited in or to be deposited in the Rebate Fund) established pursuant to the Resolution (including the investments of such Accounts, if any). The Credit Issuer shall have certain rights with respect to, among other things, extensions, remedies, waivers, amendments and actions unless there is a Wrongful Dishonor of the Credit Facility by the Credit Issuer or the Credit Facility is no longer in effect, to the extent and as provided in the Resolution.

The pledges described in the immediately preceding paragraph are also subject to the terms and provisions of the Resolution requiring transfers of amounts to the Rebate Fund and permitting the application of the Revenues and amounts in such Accounts for the purposes described therein.

Pursuant to the Assignment, all of the Corporation's rights under the Mortgage Loan (except certain reserved rights as described in the Assignment) will be assigned to the Trustee on behalf of the owners from time to time of the Bonds, as security for the payment of the principal of and interest on the Bonds, and to the Bank, as security for the obligations of the Mortgagor under the Credit Agreement. The Corporation has also assigned under the Assignment its rights to enforce the terms, covenants and conditions of the Mortgage Loan to the Bank and the

Trustee as their respective interests may appear. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Covenants with Respect to the Mortgage Loan.”

#### Letter of Credit

The 2004 Bonds when initially issued will have the benefit of an irrevocable direct pay Letter of Credit issued by the Bank. The Letter of Credit will expire on January 15, 2006, unless earlier extended or terminated earlier in accordance with its terms. The Bank will deliver the Letter of Credit to the Trustee upon the issuance of the 2004 Bonds. The Letter of Credit may be replaced with a Substitute Letter of Credit or various other forms of credit enhancement (“Alternate Security”; the Letter of Credit, Substitute Letter of Credit or Alternate Security being herein referred to as the “Credit Facility”), as described below under the caption “Alternate Security.” Upon replacement, termination or expiration of the Letter of Credit, the 2004 Bonds are subject to mandatory tender as described above under the caption “DESCRIPTION OF THE 2004 BONDS – Mandatory Purchase of 2004 Bonds Upon Replacement or Expiration of Credit Facility.” Further information regarding the Letter of Credit is contained herein under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT” and further information regarding the Bank is contained herein under the caption “THE LETTER OF CREDIT BANK.”

#### Alternate Security

Pursuant to the Resolution, the Corporation reserves the right to make provision for or cause the replacement of any Credit Facility; provided, however, that during any Weekly Rate Period, a Credit Facility must be in effect with respect to the 2004 Bonds.

The Corporation may not exercise its right to make provision for or cause the replacement of any Credit Facility, unless the Corporation has provided the Trustee with (i) certain opinions as to, among other things, the effect of such replacement on the tax status of the 2004 Bonds and the legality, validity and enforceability of the new Credit Facility; (ii) a letter from Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc. or the national rating agency or agencies then rating the 2004 Bonds (a) in the case of a Substitute Letter of Credit, to the effect that such Substitute Letter of Credit will not result in a reduction or withdrawal of the rating on the 2004 Bonds in effect at the time of such substitution; and (b) in the case of Alternate Security, to the effect that such Alternate Security will provide the 2004 Bonds with an investment grade rating; and (iii) moneys sufficient to pay all costs incurred by the Trustee and the Corporation in connection with the provision of such Credit Facility.

#### Principal Reserve Fund

The Principal Reserve Fund is established pursuant to the Resolution and is to be held by the Trustee. Pursuant to the Resolution, there is to be deposited into the Principal Reserve Fund all of the monthly payments made by the Mortgagor in accordance with the Principal Reserve Schedule attached to the Credit Agreement, as such Schedule may be amended and any amounts provided by or at the direction of the Mortgagor to replenish withdrawals from the Principal Reserve Fund described in paragraphs (1) and (2) below. *At the request of the Mortgagor, the Credit Issuer, in its sole and absolute discretion, may (i) consent to the release of all or a portion of the amounts on deposit in the Principal Reserve Fund to the Mortgagor (unless and to the extent such amounts, in the judgment of the Corporation, are needed to be transferred to the Rebate Fund pursuant to the Resolution), (ii) no longer require deposits to the Principal Reserve Fund and/or (iii) consent to a change in the Principal Reserve Schedule. The consent of the Bondholders, the Trustee or the Corporation is not required for such actions. Any amounts so released shall no longer secure the 2004 Bonds.*

Any income or interest earned or gains realized in excess of losses suffered due to the investment of amounts on deposit in the Principal Reserve Fund is, if the amount in the Principal Reserve Fund is less than the Principal Reserve Amount, to be retained therein, or, if there is no such deficiency, is to be deposited to the Revenue Account following receipt, except as otherwise provided in the Resolution and except for interest income representing accrued interest, if any, included in the purchase price of the investment, which is to be retained in the Principal Reserve Fund; provided that if, in the judgment of an Authorized Officer of the Corporation, the amount

on deposit in the Rebate Fund at such time is less than the Rebate Amount as of such time, then in lieu of retaining such amounts in the Principal Reserve Fund or depositing such amounts in the Revenue Account, such amounts (up to the amount of such deficiency) shall be transferred to the Rebate Fund.

Amounts in the Principal Reserve Fund will be applied by the Trustee:

(1) at the written direction of the Credit Issuer to reimburse the Credit Issuer for advances under the Letter of Credit which were applied to pay interest due on and/or principal of the 2004 Bonds on any Interest Payment Date, Redemption Date, date of acceleration or the maturity date or, in the event a Wrongful Dishonor has occurred and is continuing, to directly pay such interest and/or principal;

(2) at the written direction of the Credit Issuer to reimburse the Credit Issuer for advances under the Letter of Credit which were applied to pay the Purchase Price of tendered 2004 Bonds to the extent that remarketing proceeds, if any, are insufficient for such purpose or, in the event a Wrongful Dishonor has occurred and is continuing, to directly pay such Purchase Price;

(3) at the written direction of the Credit Issuer with the written consent of the Mortgagor (so long as the Mortgagor is not in default under the Mortgage, Mortgage Note, Loan Agreement, Regulatory Agreement or the Credit Agreement beyond the expiration of any applicable grace or cure period) to make improvements or repairs to the Project; and

(4) at the written direction of the Credit Issuer if a default has occurred and is continuing beyond the expiration of any applicable notice and cure period under the Credit Agreement, or if the Mortgagor otherwise consents in writing, to any other use approved in writing in its sole and absolute discretion by the an Authorized Officer of the Credit Issuer.

All amounts in the Principal Reserve Fund in excess of the Principal Reserve Amount (rounded down to the nearest multiple of \$100,000) are required to be transferred to the Redemption Account on December 1 of each year (or, if such date is not a Business Day, the next succeeding Business Day) to be applied to reimburse the Credit Issuer for amounts advanced under the Letter of Credit to effect the redemption of the 2004 Bonds on the next succeeding Interest Payment Date. See “DESCRIPTION OF THE 2004 BONDS – Redemption of 2004 Bonds – Mandatory – Mandatory Redemption from Certain Transfers from Principal Reserve Fund.”

Under certain circumstances, the Mortgagor is entitled to direct the Trustee to transfer from the Principal Reserve Fund to the Redemption Account all or a specified portion of the amount on deposit in the Principal Reserve Fund to be applied to reimburse the Credit Issuer for amounts advanced under the Letter of Credit to effect the redemption of the 2004 Bonds as directed by the Mortgagor. Any amounts so transferred shall constitute a prepayment of the Mortgage Loan and be a Recovery of Principal. See “DESCRIPTION OF THE 2004 BONDS – Redemption of 2004 Bonds – Mandatory – Mandatory Redemption From Certain Recoveries of Principal.” Also, under certain circumstances, the Credit Issuer can require that amounts on deposit in the Principal Reserve Fund be applied to reimburse the Credit Issuer for amounts advanced under the Letter of Credit to effect the mandatory tender or mandatory redemption in whole or in part of the 2004 Bonds. See “DESCRIPTION OF THE 2004 BONDS – Redemption of 2004 Bonds – Mandatory – Mandatory Redemption Following an Event of Termination,” “DESCRIPTION OF THE 2004 BONDS” – Credit Issuer’s Right to Cause a Mandatory Tender for Purchase of 2004 Bonds Upon an Event of Termination” and “SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT.”

See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Principal Reserve Fund.”

#### Additional Bonds

Additional Bonds, on parity with the 2004 Bonds then Outstanding, may be issued by the Corporation pursuant to the Resolution for any one or more of the following purposes: (i) financing increases in the Mortgage Loan, (ii) refunding 2004 Bonds, (iii) establishing reserves for such Additional Bonds, and (iv) paying the costs of issuance related to such Additional Bonds. For so long as the Credit Facility shall be in effect for the 2004 Bonds,

no Additional Bonds shall be issued unless such Bonds are secured by the same Credit Facility in effect for the 2004 Bonds, as such Credit Facility shall be amended, extended or replaced in connection with the issuance of such Additional Bonds. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Parity Bonds” herein.

#### 2004 Bonds Not a Debt of the State or the City

The 2004 Bonds are not a debt of the State of New York or of The City of New York, and neither the State nor the City shall be liable thereon, nor shall the 2004 Bonds be payable out of any funds other than those of the Corporation pledged therefor. The Corporation has no taxing power.

### **SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

Set forth below are abridged or summarized excerpts of certain sections of the Resolution. The Resolution secures only the 2004 Bonds and any other bonds issued thereunder (the 2004 Bonds and any other bonds issued under the Resolution are referred to as the “Bonds”). These excerpts do not purport to be complete or to cover all sections of the Resolution. Reference is made to the Resolution, copies of which are on file with the Corporation and the Trustee, for a complete statement of the rights, duties and obligations of the Corporation, the Trustee and the Bond owners thereunder.

#### Contract With Bond Owners – Security for Bonds – Limited Obligation

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the Resolution shall constitute a contract among the Corporation, the Trustee and the owners from time to time of such Bonds. The pledges and assignments made in the Resolution and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the Corporation shall be for the equal benefit, protection and security of the owners of any and all of such Bonds, each of which, regardless of the time of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the Resolution. The Corporation pledges the Revenues and all amounts held in any Account, including investments thereof, established under the Resolution, to the payment of the principal or Redemption Price of and interest on the Bonds, subject to provisions permitting the use or application of such amounts for stated purposes, as provided in the Resolution and the Assignment. The foregoing pledge does not include amounts on deposit in or required to be deposited in the Rebate Fund. The Corporation also assigns to the Trustee on behalf of the Bond owners and to the Credit Issuer, as their interests may appear and in accordance with the terms of the Assignment, all of its right, title and interest in and to the Mortgage Loan and the Mortgage Documents, except as otherwise provided in the Assignment. The Bonds shall be special revenue obligations of the Corporation payable solely from the revenues and assets pledged therefor under the Resolution. In addition, the Bonds shall be payable from Credit Facility Payments.

#### Provisions for Issuance of Bonds

In order to provide sufficient funds to finance the Project and pay certain costs related thereto, Bonds of the Corporation are authorized to be issued without limitation as to amount except as may be provided by law. The Bonds shall be executed by the Corporation for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered upon the order of the Corporation, but only upon the receipt by the Trustee of, among other things:

- a. a Bond Counsel’s Opinion to the effect that (i) the Resolution and the Supplemental Resolution, if any, have been duly adopted by the Corporation and are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms (except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency and other laws affecting creditors’ rights and remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law)); (ii) the Resolution and, if applicable, such Supplemental Resolution create the valid pledge and lien which it or they purport to create of and on the Revenues and all

the Accounts established under the Resolution and moneys and securities on deposit therein, subject to the use and application thereof for or to the purposes and on the terms and conditions permitted by the Resolution and such Supplemental Resolution; and (iii) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the laws of the State, including the Act as amended to the date of such Opinion, and in accordance with the Resolution and such Supplemental Resolution;

b. a written order as to the delivery of such Bonds, signed by an Authorized Officer of the Corporation;

c. the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to the Resolution; and

d. with respect to the 2004 Bonds, the Letter of Credit, and with respect to any Additional Bonds, the Credit Facility, if required.

#### Parity Bonds

Additional Bonds may be issued, at the option of the Corporation, on a parity with the Bonds then Outstanding, for the purposes of (i) financing increases in the Mortgage Loan, (ii) refunding Bonds, (iii) establishing reserves for such Additional Bonds and (iv) paying the Costs of Issuance related to such Additional Bonds. Any Additional Bonds shall contain such terms and provisions as are specified in the Supplemental Resolution authorizing the same. The Supplemental Resolution authorizing such Additional Bonds shall utilize, to the extent possible, Accounts established for the Outstanding Bonds.

For so long as a Credit Facility shall be in effect for the 2004 Bonds, no Additional Bonds shall be issued unless such Bonds are secured by the same Credit Facility in effect for the 2004 Bonds, as such Credit Facility shall be amended, extended or replaced in connection with the issuance of such Additional Bonds; provided that the Credit Facility shall not secure Pledged Bonds.

#### Application and Disbursements of Bond Proceeds

The proceeds of sale of a Series of Bonds shall, as soon as practicable upon the delivery of such Bonds by the Trustee, be applied as follows:

(1) the amount, if any, received at such time as a premium above the aggregate principal amount of such Bonds shall be applied as specified in a Certificate of an Authorized Officer, and the amount, if any, received as accrued interest shall be deposited in the Revenue Account;

(2) with respect to any Series issued for the purpose of refunding Bonds, the amount, if any, required to pay Costs of Issuance, as designated by an Authorized Officer of the Corporation, shall be deposited in the Bond Proceeds Account;

(3) with respect to any Series issued for the purpose of refunding Bonds, the balance remaining after such deposits have been made as specified in (1) and (2) above shall be applied as specified in the Supplemental Resolution authorizing such Series;

(4) with respect to the 2004 Bonds, the balance remaining after such deposits have been made as specified in (1) above shall be deposited in the Bond Proceeds Account; and

(5) with respect to any Series (other than the 2004 Bonds) issued for a purpose other than refunding Bonds, the balance remaining after such deposits have been made shall be deposited in the Bond Proceeds Account.

Amounts in the Bond Proceeds Account shall not be disbursed for financing the Mortgage Loan, unless, among other things, (1) the Mortgage Documents and any other document securing the Mortgage Loan shall have been duly executed and delivered, (2) there shall have been filed with the Trustee an opinion of counsel to the effect that the Mortgage Loan complies with all provisions of the Act and the Resolution, and (3) the Mortgage is the subject of a policy of title insurance in an amount not less than the amount of the unpaid principal balance of the Mortgage Loan insuring a first mortgage lien subject only to Permitted Encumbrances on the real property securing the Mortgage Loan.

#### Deposits and Investments

Any amounts held by the Trustee under the Resolution may be deposited in the corporate trust department of the Trustee and secured as provided in the Resolution. In addition, any amount held by the Trustee under the Resolution may be invested in Investment Securities, unless otherwise provided. In computing the amount in any Account, obligations purchased as an investment of moneys therein shall be valued at amortized value or if purchased at par value, at par.

Upon receipt of written instructions from an Authorized Officer of the Corporation, the Trustee shall exchange any coin or currency of the United States of America or Investment Securities held by it pursuant to the Resolution for any other coin or currency of the United States of America or Investment Securities of like amount.

Any other provisions of the Resolution notwithstanding, amounts on deposit in the Letter of Credit Payments Sub-Account, pending application, may only be invested in Government Obligations maturing or being redeemable at the option of the holder thereof in the lesser of thirty (30) days or the times at which such amounts are needed to be expended.

#### Establishment of Accounts

The Resolution establishes the following special trust accounts to be held and maintained by the Trustee in accordance with the Resolution:

- (1) Bond Proceeds Account;
- (2) Revenue Account (including the Letter of Credit Payments Sub-Account therein);
- (3) Redemption Account; and
- (4) Principal Reserve Fund.

In the event provision is made for Alternate Security with respect to the Bonds, the Trustee may establish a special trust account with an appropriate designation, and the provisions of the Resolution applicable to the Letter of Credit Payments Sub-Account shall be applicable to the newly created trust account in all respects as if the newly created trust account replaced the Letter of Credit Payments Sub-Account.

#### Bond Proceeds Account

There shall be deposited from time to time in the Bond Proceeds Account any proceeds of the sale of Bonds representing principal or premium or other amounts required to be deposited therein pursuant to the Resolution and any other amounts determined by the Corporation to be deposited therein from time to time.

Amounts in the Bond Proceeds Account shall be expended only (i) to finance the Mortgage Loan; (ii) to pay Costs of Issuance; (iii) to pay principal or Redemption Price of and interest on the Bonds when due, to the extent amounts in the Revenue Account and the Redemption Account are insufficient for such purposes; (iv) to purchase or redeem Bonds in accordance with the Resolution; (v) to reimburse the Credit Issuer for moneys obtained under the Credit Facility for the purposes set forth in (iii) above; and (vi) to pay to the Credit Issuer any regularly scheduled fees due and owing to the Credit Issuer pursuant to the Credit Agreement.

## Revenue Account

Subject to the provisions of the Assignment, the Corporation shall cause all Pledged Receipts, excluding all amounts to be deposited pursuant to the Resolution in the Principal Reserve Fund, to be deposited promptly with the Trustee in the Revenue Account. There shall also be deposited in the Revenue Account any other amounts required to be deposited therein pursuant to the Resolution. Except as otherwise provided in the Resolution with respect to the Principal Reserve Fund, earnings on all Accounts established under the Resolution shall be deposited, as realized, in the Revenue Account, except for moneys required to be deposited in the Rebate Fund in accordance with the provisions of the Resolution and except for interest income representing a recovery of the premium and accrued interest, if any, included in the purchase price of any Investment Security, which shall be retained in the particular account for which the Investment Security was purchased. During the term of the Letter of Credit, the Trustee shall draw moneys thereunder in accordance with the terms thereof, in a timely manner and in amounts sufficient to pay the principal or Redemption Price of and interest on the Bonds as such become due, whether at maturity or upon redemption or acceleration or on an Interest Payment Date or otherwise, and shall deposit such amounts in the Letter of Credit Payments Sub-Account. During the term of any other Credit Facility, the Trustee shall obtain moneys under such Credit Facility, in accordance with the terms thereof, in a timely manner, in the full amount required to pay the principal or Redemption Price of and interest on the Bonds as such become due, whether at maturity or upon redemption or acceleration or on an Interest Payment Date or otherwise and shall deposit such amounts in the Letter of Credit Payments Sub-Account.

On or before each Interest Payment Date, the Trustee shall pay, from the sources described below and in the order of priority indicated, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date, and on or before the Redemption Date or date of purchase (but not with respect to any purchase pursuant to the Mandatory Purchase Provision or the Demand Purchase Option), the amounts required for the payment of accrued interest on Outstanding Bonds to be redeemed or purchased on such date (unless the payment of such accrued interest shall be otherwise provided for) as follows:

- (1) first, from the Letter of Credit Payments Sub-Account, and to the extent the moneys therein are insufficient for said purpose;
- (2) second, from the Revenue Account, and to the extent the moneys therein are insufficient for said purpose;
- (3) third, from the Redemption Account, and to the extent moneys therein are insufficient for said purpose;
- (4) fourth, from the Bond Proceeds Account, and to the extent moneys therein are insufficient for said purpose; and
- (5) fifth, from any other moneys held by the Trustee under the Resolution and available for such purpose.

After payment of the Principal Installments, if any, and interest due on the Outstanding Bonds has been made, and to the extent payments on the Bonds are made from the source described in subparagraph (1) above, the amounts available from the sources described in subparagraphs (2) through (5) above, in the order of priority indicated, shall be used immediately to reimburse the Credit Issuer for amounts obtained under the Credit Facility and so applied.

Notwithstanding any provision to the contrary which may be contained in the Resolution, (i) in computing the amount to be drawn under the Credit Facility on account of the payment of the principal of or interest on the Bonds, the Trustee shall exclude any such amounts in respect of any Bonds which are Pledged Bonds on the date such payment is due, and (ii) amounts drawn by the Trustee under the Credit Facility shall not be applied to the payment of the principal of or interest on any Bonds which are Pledged Bonds on the date such payment is due.



Any moneys accumulated in the Revenue Account up to the unsatisfied balance of each Sinking Fund Payment (together with amounts accumulated in the Revenue Account with respect to interest on the Bonds for which such Sinking Fund Payment was established) shall, if so directed in writing by the Corporation, be applied by the Trustee on or prior to the forty-fifth day preceding such Sinking Fund Payment (i) to the purchase of Bonds of the maturity for which such Sinking Fund Payment was established at prices (including any brokerage and other charges) not exceeding the Redemption Price plus unpaid accrued interest or (ii) to the redemption of such Bonds, if then redeemable by their terms, at the Redemption Prices referred to above.

Upon the purchase or redemption of any Bond for which Sinking Fund Payments have been established from amounts in the Revenue Account, 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 with respect to the Bonds of such maturity and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer of the Corporation at the time of such purchase or redemption.

As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall call for redemption on such due date, Bonds in such amount as shall be necessary to complete the retirement of a principal amount of Bonds equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Revenue Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date.

On each Interest Payment Date, the Trustee shall transfer from the Revenue Account (after providing for all payments required to have been made prior thereto pursuant to the Resolution) (i) first, if so directed by the Corporation, to the Trustee, an amount equal to the Trustee's unpaid fees and expenses, (ii) second, at the direction of the Corporation, to the Credit Issuer, an amount equal to any fees due and owing to the Credit Issuer pursuant to the Credit Agreement, (iii) third, if so directed by the Corporation, to the Tender Agent, an amount equal to the Tender Agent's unpaid fees and expenses, (iv) fourth, if so directed by the Corporation, to the Remarketing Agent, an amount equal to the Remarketing Agent's unpaid fees and expenses, and (v) fifth, to the Corporation, the Administrative Fee to the extent unpaid. The amount remaining after making the transfers or payments required hereinabove shall be retained in the Revenue Account. Such remaining balance shall be used to offset the Mortgagor's obligation under the Mortgage Loan (in direct chronological order of such obligation), unless the Trustee receives a certificate from the Corporation stating that a default has occurred with respect to any agreement between the Corporation and the Mortgagor. If the Trustee shall thereafter receive a Certificate from the Corporation stating that such default has been cured or waived, such remaining balance shall once again be used to offset the Mortgagor's obligation under the Mortgage Loan (in direct chronological order of such obligation).

#### Redemption Account

Subject to the provisions of the Assignment, there shall be deposited in the Redemption Account all Recoveries of Principal and any other amounts which are required by the Resolution to be so deposited and any other amounts available therefor and determined by the Corporation to be deposited therein. Subject to the provisions of the Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply amounts from the sources described in the following paragraph equal to amounts so deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in the Resolution.

On or before a Redemption Date or date of purchase of Bonds in lieu of redemption, the Trustee shall pay, from the sources described below and in the order of priority indicated, the amounts required for the payment of the principal of Outstanding Bonds to be redeemed or purchased and cancelled on such date, as follows:

- (1) first, from the Letter of Credit Payments Sub-Account, and to the extent the moneys therein are insufficient for such purpose;

(2) second, from the Redemption Account, and to the extent the moneys therein are insufficient for such purpose;

(3) third, from the Revenue Account, and to the extent the moneys therein are insufficient for such purpose;

(4) fourth, from the Bond Proceeds Account, and to the extent the moneys therein are insufficient for such purpose; and

(5) fifth, from any other moneys held by the Trustee under the Resolution and available for such purpose.

After payment of the principal of such Outstanding Bonds to be redeemed or purchased has been made, and to the extent payments for the redemption or purchase of the Bonds are made from the source described in subparagraph (1) above, amounts available from the sources described in subparagraphs (2) through (5) above, in the order of priority indicated, shall be used to reimburse the Credit Issuer for amounts obtained under the Credit Facility and so applied.

#### Rebate Fund

The Resolution also establishes the Rebate Fund as a special trust account to be held and maintained by the Trustee. Earnings on all amounts required to be deposited in the Rebate Fund are to be deposited in the Rebate Fund.

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee or any Bond owner or any other person other than as set forth in the Resolution.

The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Officer of the Corporation, shall deposit in the Rebate Fund at least as frequently as the end of each fifth Bond Year and at the time that the last Bond that is part of the Series for which a Rebate Amount is required is discharged, an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of such time of calculation. The amount deposited in the Rebate Fund pursuant to the previous sentence shall be deposited from amounts withdrawn from the Revenue Account, and to the extent such amounts are not available in the Revenue Account, directly from earnings on the Accounts. The Trustee shall also transfer certain amounts on deposit in the Principal Reserve Fund to the Rebate Fund in accordance with the provisions of the Resolution described under "Principal Reserve Fund."

Amounts on deposit in the Rebate Fund shall be invested in the same manner as amounts on deposit in the Accounts, except as otherwise specified by an Authorized Officer of the Corporation to the extent necessary to comply with the tax covenant set forth in the Resolution, and except that the income or interest earned and gains realized in excess of losses suffered by the Rebate Fund due to the investment thereof shall be deposited in or credited to the Rebate Fund from time to time and reinvested.

In the event that, on any date of calculation of the Rebate Amount, the amount on deposit in the Rebate Fund exceeds the Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Officer of the Corporation, shall withdraw such excess amount and deposit it in the Revenue Account.

The Trustee, upon the receipt of written instructions and certification of the Rebate Amount from an Authorized Officer of the Corporation, shall pay to the United States, out of amounts in the Rebate Fund, (i) not less frequently than once each five (5) years after the date of original issuance of each Series for which a Rebate Amount is required, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to 90% of the Rebate Amount with respect to each Series for which a Rebate Amount is required as of the date of such payment, and (ii) notwithstanding the provisions of the Resolution, not later than sixty (60) days after the date on which all Bonds of a Series for which a Rebate Amount is required have been paid in full, 100% of the Rebate Amount as of the date of payment.

## Principal Reserve Fund

Amounts on deposit in the Principal Reserve Fund shall be applied as set forth in the Resolution. There shall be deposited into the Principal Reserve Fund all of the monthly payments made in accordance with the Principal Reserve Schedule attached to the Credit Agreement and provided to the Trustee by the Credit Issuer, as such schedule may be amended in accordance with the provisions of the Credit Agreement and provided to the Trustee by the Credit Issuer, and any amounts provided by or at the direction of the Mortgagor to replenish withdrawals from the Principal Reserve Fund described in paragraphs (1) and (2) below. Any income or interest earned or gains realized in excess of losses suffered due to the investment of amounts on deposit in the Principal Reserve Fund shall, if the amount in the Principal Reserve Fund is less than the Principal Reserve Amount, be retained therein, or, if there is no such deficiency, shall be deposited to the Revenue Account following receipt, except as otherwise provided in the Resolution and except for interest income representing accrued interest, if any, included in the purchase price of the investment, which is to be retained in the Principal Reserve Fund; provided that if, in the judgment of an Authorized Officer of the Corporation, the amount on deposit in the Rebate Fund at such time is less than the Rebate Amount as of such time, then in lieu of retaining such amounts in the Principal Reserve Fund or depositing such amounts in the Revenue Account, such amounts (up to the amount of such deficiency) shall be transferred to the Rebate Fund.

In addition to the other payments required or permitted by the Resolution, amounts in the Principal Reserve Fund shall be used to pay, at the written direction and in the sole discretion of the Credit Issuer:

- (1) to reimburse the Credit Issuer for advances under the Credit Facility which were used to pay interest due on and/or principal of the 2004 Bonds on any Interest Payment Date, Redemption Date, date of acceleration or the maturity date or, in the event a Wrongful Dishonor has occurred and is continuing, to directly pay such interest and/or principal;
- (2) to reimburse the Credit Issuer for advances under the Credit Facility which were used to pay the Purchase Price of tendered 2004 Bonds to the extent that remarketing proceeds, if any, are insufficient for such purpose or, in the event a Wrongful Dishonor has occurred and is continuing, to directly pay such Purchase Price;
- (3) with the written consent of the Mortgagor (so long as the Mortgagor is not in default under the Mortgage, Mortgage Note, Loan Agreement, Regulatory Agreement or the Credit Agreement beyond the expiration of any applicable grace or cure period) to make improvements or repairs to the Project; and
- (4) if a default has occurred and is continuing beyond the expiration of any applicable notice and cure period under the Credit Agreement, or if the Mortgagor otherwise consents in writing, to any other use approved in writing in its sole and absolute discretion by the Authorized Officer of the Credit Issuer.

On each December 1 (or, if such date is not a Business Day, the next succeeding Business Day), after providing for all payments and transfers required to be made pursuant to the Resolution, all amounts in the Principal Reserve Fund in excess of the Principal Reserve Amount (rounded down to the nearest multiple of \$100,000) shall be transferred by the Trustee to the Redemption Account to be applied to the reimbursement of the Credit Issuer in connection with the redemption of 2004 Bonds (or, in the event a Wrongful Dishonor has occurred and is continuing, directly to the redemption of 2004 Bonds) on the first Business Day of the next succeeding January.

If the Mortgagor certifies in writing to the Trustee and the Corporation that no "Event of Default" or "Default" exists under the Credit Agreement, and if such certificate shall bear the written acknowledgement of the Credit Issuer, the Mortgagor shall be entitled to direct the Trustee to transfer from the Principal Reserve Fund to the Redemption Account all or a specified portion of the amount on deposit in the Principal Reserve Fund to be applied to the reimbursement of the Credit Issuer in connection with the redemption of 2004 Bonds (or, in the event a Wrongful Dishonor has occurred and is continuing, directly to the redemption of 2004 Bonds). Any amounts so transferred shall constitute a prepayment of the Mortgage Loan at the option of the Mortgagor and shall be a Recovery of Principal; provided however, that such right of the Mortgagor to direct such transfers may be exercised only at the times, and subject to any conditions, set forth in the Loan Agreement with respect to optional prepayments of the Mortgage Loan by the Mortgagor.

Moneys on deposit in the Principal Reserve Fund shall be invested in Government Obligations or, to the extent otherwise permitted by the Resolution, (a) other short-term variable rate instruments rated by S&P in a category equivalent to the rating then in effect for the 2004 Bonds or (b) as otherwise permitted by the Credit Issuer, in its sole discretion.

At the request of the Mortgagor, the Credit Issuer, in its sole and absolute discretion, may (i) consent to the release of all or a portion of the amounts on deposit in the Principal Reserve Fund to the Mortgagor (in which case the Trustee shall release such amounts to the Mortgagor, provided that if, in the judgment of an Authorized Officer of the Corporation, the amount on deposit in the Rebate Fund at such time is less than the Rebate Amount as of such time, then prior to any such release to the Mortgagor, any amounts on deposit in the Principal Reserve Fund (up to the amount of such deficiency) shall be transferred to the Rebate Fund) and/or (ii) no longer require deposits to the Principal Reserve Fund. Any amounts so released shall no longer secure the 2004 Bonds.

#### Payment of Bonds

The Corporation covenants that it will duly and punctually pay or cause to be paid, as provided in the Resolution, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

#### Tax Covenants

The following covenants are made solely for the benefit of the owners of, and shall be applicable solely to, the 2004 Bonds and any Additional Bonds, as designated in a Supplemental Resolution, to which the Corporation intends that the following covenants shall apply:

The Corporation shall at all times do and perform all acts and things permitted by law necessary or desirable in order to assure that interest paid on the Bonds shall be excluded from gross income for Federal income tax purposes, except in the event that the owner of any such Bond is a “substantial user” of the facilities financed by the Bonds or a “related person” within the meaning of the Code.

The Corporation shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Corporation to be used directly or indirectly to acquire any securities, obligations or other investment property, the acquisition of which would cause any Bond to be an “arbitrage bond” as defined in Section 148(a) of the Code.

The Corporation shall not permit any person or “related person” (as defined in the Code) to purchase Bonds (other than Pledged Bonds) in an amount related to the Mortgage Loan to be acquired by the Corporation from such person or “related person.”

#### Covenants with Respect to Mortgage Loan

In order to pay the Principal Installments of and interest on the Bonds when due, the Corporation covenants that it shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the kind permitted by the Resolution, to finance the Mortgage Loan pursuant to the Act and the Resolution and any applicable Supplemental Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Pledged Receipts (including diligent enforcement of the prompt collection of all arrears on the Mortgage Loan) and Recoveries of Principal, and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to protect its rights with respect to or to maintain any insurance on the Mortgage Loan or any subsidy payments in connection with the Project or the occupancy thereof and to enforce all terms, covenants and conditions of the Mortgage Loan and the Mortgage Documents, including the collection, custody and prompt application of all Escrow Payments for the purposes for which they were made; provided, however, that the

obligations of the Corporation in (ii) and (iii) above may be suspended during the term of the Assignment, except as otherwise provided in the Assignment.

#### Issuance of Additional Obligations

The Corporation shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a superior or, except in the case of Bonds, an equal charge and lien on the Revenues and assets pledged under the Resolution. The Corporation shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a subordinate charge and lien on the Revenues and assets pledged under the Resolution unless the Corporation shall have received the written consent of the Credit Issuer.

#### Accounts and Reports

The Corporation shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Mortgage Loan and all Accounts established by the Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing. The Corporation may authorize or permit the Trustee to keep such books on behalf of the Corporation.

If at any time during any fiscal year there shall have occurred an Event of Default or an Event of Default shall be continuing, then the Corporation shall file with the Trustee, within forty-five (45) days after the close of such fiscal year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Account under the Resolution.

The Corporation shall annually, within one hundred twenty (120) days after the close of each fiscal year of the Corporation, file with the Trustee a copy of an annual report as to the operations and accomplishments of the various funds and programs of the Corporation during such fiscal year, and financial statements for such fiscal year, setting forth in reasonable detail, (i) the balance sheet with respect to the Bonds and Mortgage Loan, showing the assets and liabilities of the Corporation at the end of such fiscal year; (ii) a statement of the Corporation's revenues and expenses in accordance with the categories or classifications established by the Corporation in connection with the Bonds and Mortgage Loan during such fiscal year; (iii) a statement of changes in fund balances, as of the end of such fiscal year; and (iv) a statement of cash flows, as of the end of such fiscal year. The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of the Corporation at the end of the fiscal year, the results of its operations and the changes in its fund balances and its cash flows for the period examined, in conformity with generally accepted accounting principles applied on a consistent basis except for changes with which such Accountant concurs.

Except as provided in the second preceding paragraph, any such financial statements may be presented on a consolidated or combined basis with other reports of the Corporation.

A copy of each annual report or special report and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by the Corporation to each Bond owner who shall have filed such owner's name and address with the Corporation for such purposes.

#### Supplemental Resolutions

Any modification of or amendment to the provisions of the Resolution and of the rights and obligations of the Corporation and of the owners of the Bonds may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the owners of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the Bonds then Outstanding are affected by the modification or amendment, of the owners of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the owners of at least two-thirds 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; provided, however, that a modification or amendment referred to in (iii) above shall not be permitted unless the Trustee shall have received a Bond Counsel's Opinion to the effect that such modification or amendment does not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds to which the tax covenants of the Resolution apply. If any such modification or amendment will not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, 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 paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

The Corporation may adopt, without the consent of any owners of the Bonds, Supplemental Resolutions, to, among other things, provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on the issuance of other evidences of indebtedness; add to the covenants and agreements of or limitations and restrictions on, the Corporation's other covenants and agreements or limitations and restrictions which are not contrary to or inconsistent with the Resolution; surrender any right, power or privilege of the Corporation under the Resolution but only if such surrender is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolution; confirm any pledge under the Resolution, of the Revenues or of any other revenues or assets; modify any of the provisions of the Resolution in any respect whatever (but no such modification shall be effective until all Bonds theretofore issued are no longer Outstanding); provide for the issuance of Bonds in coupon form payable to bearer; authorize the issuance of Additional Bonds and prescribe the terms and conditions thereof; provide that specified provisions of the Resolution that relate to the 2004 Bonds shall also apply to a Series of Additional Bonds; cure any ambiguity or correct any defect or inconsistent provision in the Resolution (provided that the Trustee shall consent thereto); comply with the Code; provide for such changes (other than any changes that adversely affect the exclusion from gross income for Federal income tax purposes of interest on any series of bonds to which the tax covenants apply) as are deemed necessary or desirable by the Corporation upon delivery of an Alternate Security or a Substitute Letter of Credit; provide for such changes as are deemed necessary or desirable by the Corporation in connection with either (a) providing for a book-entry system with respect to a Series of Bonds or (b) discontinuing a book-entry system with respect to a Series of Bonds; provide for such changes as are deemed necessary or desirable by the Corporation to take effect on a Change Date on which 100% of the Bonds are subject to mandatory tender; during any period that all Bonds bear interest at a Weekly Rate, provide such changes as are deemed necessary or desirable by the Corporation, if, not less than thirty (30) days before the effective date of such changes, the Trustee sends notice of the proposed changes to the Bond owners and the Bond owners have the right to tender their Bonds for purchase before such effective date; or make any additions, deletions or modifications to the Resolution which, in the opinion of the Trustee, are not materially adverse to the interests of the Bond owners.

The foregoing notwithstanding, for so long as the Credit Facility shall be in effect, no supplement, modification or amendment of the Resolution shall take effect without the consent of the Credit Issuer.

#### Events of Default and Termination

Each of the following events set forth in clauses (1) through (3) below constitutes an "Event of Default" and the following event set forth in clause (4) below constitutes an "Event of Termination" with respect to the Bonds: (1) payment of the principal or Redemption Price, if any, of or interest on any Bond (other than Pledged Bonds) 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 shall become due; (2) payment of the Purchase Price of any 2004 Bond (other than Pledged Bonds) tendered in accordance with the Resolution shall not be made when and as the same shall become due; (3) the Corporation shall fail or refuse to comply with the provisions of the Resolution or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Resolution or in any applicable Supplemental Resolution or the Bonds (other than any such default resulting in an Event of Default described in clause (1) or (2) above), and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Trustee or the owners of not less than five percent (5%) in principal amount of the Outstanding Bonds; or (4) receipt by the Trustee of written notice from the Credit Issuer that

an “Event of Default” has occurred under the Credit Agreement together with a written direction from the Credit Issuer to the Trustee to exercise either the remedy set forth in clause (5) of the following paragraph or the remedy set forth in clause (8) of the following paragraph, as provided in such direction.

### Remedies

Upon the happening and continuance of an Event of Termination specified in the Resolution, the Trustee shall proceed, in its own name pursuant to the direction of the Credit Issuer as described in clause (4) of the preceding paragraph, to protect and enforce the remedies of the Bond owners and the Credit Issuer by the remedies set forth in either clause (5) or (8) below; provided, however, that anything in the Resolution to the contrary notwithstanding, the Trustee shall enforce the remedies set forth in clauses (5) and (8) as specified in the direction of the Credit Issuer as described in clause (4) of the preceding paragraph within the time limits provided therein. Upon the happening and continuance of any Event of Default specified in clause (1) or (2) of the preceding paragraph, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in clause (3) of the preceding paragraph, the Trustee may proceed and, upon the written request of the owners of not less than 25% in principal amount of the Outstanding Bonds, shall proceed, in its own name, subject, in each such case, to the provisions of the Resolution, including the receipt of the written consent of the Credit Issuer, to protect and enforce the rights of the Bond owners by the remedies specified below for particular Events of Default, and such other of the remedies set forth in clauses (1) through (7) below, 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 Bond owners, including the right to require the Corporation to receive and collect Revenues adequate to carry out the covenants and agreements as to the Mortgage Loan (subject to the provisions of the Assignment) and to require the Corporation to carry out any other covenants or agreements with such Bond owners, and to perform its duties under the Act; (2) by bringing suit upon the Bonds; (3) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the owners of the Bonds; (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 the Bonds; (5) with the written consent of the Credit Issuer in the case of an Event of Default or upon the direction described in clause (4) of the preceding paragraph in the case of an Event of Termination, by immediately declaring all Bonds or, with respect to an Event of Termination, a portion of the 2004 Bonds specified by the Credit Issuer due and payable, whereupon, with respect to any affected 2004 Bonds, such Bonds shall be immediately redeemed, without premium, pursuant to the Resolution, provided that upon the happening and continuance of an Event of Default specified in clause (1) or (2) of the preceding paragraph, the Trustee shall declare all Bonds due and payable; (6) in the event that all Outstanding Bonds are declared due and payable, by selling the Mortgage Loan (subject to the provisions of the Assignment) and any Investment Securities securing such Bonds; (7) by taking such action with respect to or in connection with the Credit Facility as the Trustee deems necessary to protect the interests of the owners of the 2004 Bonds; or (8) upon the happening and continuance of an Event of Termination and upon receipt of direction from the Credit Issuer, by carrying out a purchase of all or, if so designated by the Credit Issuer, a portion of the 2004 Bonds pursuant to the Resolution on a date specified by the Credit Issuer, which date shall not be later than eight (8) days following receipt by the Trustee of such direction.

Anything in the Resolution to the contrary notwithstanding, except as otherwise provided in clause (5) or (8) of the preceding paragraph, the owners of the majority 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 under the Resolution, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond owners not parties to such direction and provided, further, that notwithstanding the foregoing, the Credit Issuer shall be entitled to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Resolution.

No owner of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Resolution, or for the protection or enforcement of any right under the Resolution unless such owner shall have given to the Trustee written notice of the Event of Default or an Event of Termination or breach of duty on account of which such suit, action or proceeding is to be taken, and unless 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 or 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 granted in the Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the fees, costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Nothing contained in the Resolution shall affect or impair the right of any Bond owner to enforce the payment of the principal of and interest on such owner's Bonds, or the obligation of the Corporation to pay the principal of and interest on each Bond to the owner thereof at the time and place in said Bond expressed.

Unless remedied or cured, the Trustee shall give to the Bond owners notice of each Event of Default or Event of Termination under the Resolution known to the Trustee within ninety (90) days after actual knowledge by the Trustee of the occurrence thereof; provided that in the case of the 2004 Bonds, such notice need not be given with respect to any 2004 Bond for which the Trustee has proceeded to carry out a mandatory purchase of such 2004 Bonds pursuant to the Resolution. However, except in the case of default in the payment of the principal or Redemption Price, if any, of or interest on any of the Bonds, or in the making of any payment required to be made into the Bond Proceeds Account, the Trustee may withhold such notice if it determines that the withholding of such notice is in the interest of the Bond owners.

#### Priority of Payments After Event of Default or Event of Termination

In the event that upon the happening and continuance of any Event of Default or an Event of Termination the funds held by the Trustee shall be insufficient for the payment of the principal or Redemption Price, if any, of and interest then due on the Bonds affected, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and the Resolution, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the owners of such Bonds and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under the Resolution, shall be applied in the order of priority with respect to Bonds as set forth in the following paragraph and as follows:

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

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

SECOND: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any such Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all such Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Bond over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds.

If, at the time the Trustee is to apply amounts in accordance with the provisions of the preceding paragraph, any of the Bonds Outstanding are Pledged Bonds, the Trustee shall make the payments with respect to the Bonds prescribed by the preceding paragraph, first, to the owners of all Bonds Outstanding other than Pledged Bonds and second, to the owner of Pledged Bonds.



### Rights of the Credit Issuer

Notwithstanding anything contained in the Resolution to the contrary, all rights of the Credit Issuer under the Resolution, including, but not limited to, the right to consent to, approve, initiate or direct extensions, remedies, waivers, actions and amendments thereunder shall cease, terminate and become null and void (a) if, and for so long as, there is a Wrongful Dishonor of the Credit Facility by the Credit Issuer, or (b) if the Credit Facility is no longer in effect; provided, however, that notwithstanding any such Wrongful Dishonor, the Credit Issuer shall be entitled to receive notices pursuant to the Resolution in accordance with the terms of the Resolution.

### Payments Due on Days Not Business Days

If the date for making any payment of principal or Redemption Price of or interest on any of the Bonds shall be a day other than a Business Day, then payment of such principal or Redemption Price of or interest on such Bonds need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date originally fixed for such payment, except that interest shall continue to accrue on any unpaid principal to such next succeeding Business Day.

## **SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND THE CREDIT AGREEMENT**

The 2004 Bonds are secured by the Letter of Credit, which is issued pursuant to the Credit Agreement that obligates the Mortgagor, among other things, to reimburse the Bank for funds provided by the Bank under the Letter of Credit and to pay various fees and expenses, in each case as provided in the Credit Agreement. The Credit Agreement governs obligations of the Mortgagor to the Bank on account of the Bank providing such credit enhancement.

Set forth below is an abridged or summarized excerpt of certain sections of the Letter of Credit and the Credit Agreement. This excerpt does not purport to be complete or to cover all sections of the Letter of Credit and the Credit Agreement. Reference is made to the Letter of Credit and Credit Agreement, copies of which are on file with the Trustee, for a complete statement of the rights, duties and obligations of the Bank and the Mortgagor.

### The Letter of Credit

The Letter of Credit, which is irrevocable, shall be issued in an original stated amount of \$19,686,987.00 of which \$19,500,000.00 shall be with respect to the principal of the 2004 Bonds or the portion of the Purchase Price corresponding to the principal thereof, and \$186,987.00 shall be with respect to up to thirty-five (35) days of accrued interest with respect to the 2004 Bonds, or in each case the portion of the Purchase Price corresponding to interest at the Maximum Rate. The Letter of Credit shall be issued to the Trustee for the account of the Mortgagor. The stated amount of the Letter of Credit shall be reduced after the date of issuance in amounts equal to the amount of any drawing thereunder, subject to reinstatement as described below.

The Letter of Credit will terminate upon the earliest of: (i) the honoring of the final drawing available to be made under the Letter of Credit which is not subject to reinstatement; (ii) receipt by the Bank of a written notice that either no 2004 Bonds remain Outstanding and unpaid or a substitute Credit Facility has been received by the Trustee; or (iii) January 15, 2006 (unless earlier extended in accordance with its terms), the Letter of Credit expiration date. In addition, the Letter of Credit will terminate upon the conversion of the interest borne by the 2004 Bonds to certain other interest rate calculation methods.

### The Credit Agreement

Issuance of the Letter of Credit. The Mortgagor requested the issuance by the Bank of the Letter of Credit to enhance the marketability of the 2004 Bonds by securing a source of funds to be devoted exclusively to the payment by the Trustee, when and as due, of the principal or Purchase Price of and interest on the 2004 Bonds. The Bank has agreed to provide the Letter of Credit subject to certain terms and conditions as provided in the Credit

Agreement. The Mortgagor has agreed to pay fees to the Bank in connection with the issuance and maintenance of the Letter of Credit and to indemnify the Bank in certain circumstances.

The Mortgagor agrees to reimburse the Bank in full for drawings made upon the Letter of Credit on the date each drawing is honored, or in the case of a drawing to acquire unremarketed 2004 Bonds, on the earliest to occur of (i) the Letter of Credit expiration date or (ii) the date of redemption of the related unremarketed 2004 Bonds.

Reduction. Upon payment by the Bank of a drawing to pay principal on the 2004 Bonds (upon maturity, acceleration or redemption, but not to acquire unremarketed 2004 Bonds), the amount available to be drawn under the Letter of Credit for payment of principal on the 2004 Bonds shall be reduced automatically and permanently by an amount equal to the amount so drawn, the reduction of such amount to be effective on the date payment of such drawing is made by the Bank. In addition, upon payment by the Bank of any such drawing to pay principal on the 2004 Bonds upon maturity, acceleration or redemption, the amount available to be drawn under the Letter of Credit for payment of interest on the 2004 Bonds shall be reduced automatically and permanently in an amount equal to with respect to the 2004 Bonds, thirty-five (35) days' interest on the amount of such principal reduction in the amount available to be drawn under the Letter of Credit for payment of principal on the 2004 Bonds.

Upon payment by the Bank of a drawing to pay interest on the 2004 Bonds (other than interest on Pledged Bonds and on the 2004 Bonds paid upon maturity, acceleration or redemption), the amount available to be drawn under the Letter of Credit for the payment of interest on the 2004 Bonds shall be reduced automatically, subject to reinstatement as described below, by an amount equal to the amount so drawn, the reduction of such amount to be effective on the date payment of such drawing is made by the Bank.

Upon payment by the Bank of a drawing to acquire unremarketed 2004 Bonds, the stated amount of the Letter of Credit shall be reduced automatically, subject to reinstatement, as described below.

Reinstatement. The amount available to be drawn under the Letter of Credit for payment of interest on the 2004 Bonds shall be reinstated automatically in the full amount of the amount so drawn (other than such amounts pertaining to a drawing to pay interest on 2004 Bonds paid with a drawing to pay principal on the 2004 Bonds upon maturity, acceleration or redemption) immediately following payment of such drawing.

The amount available to be drawn under the Letter of Credit to acquire unremarketed 2004 Bonds will be reinstated upon receipt by the Bank of (i) an amount by which the Bank is then requested to increase such amount (as to interest and/or principal); and (ii) notice from the Trustee in the appropriate form, unless prior to receipt by the Bank of such notice, the Trustee shall have received from the Bank notice or telephonic notice, promptly confirmed in writing, of the occurrence of an event of default under the Credit Agreement.

Events of Default. Each of the following events, among others, shall be an event of default under the Credit Agreement:

(i) a default shall occur and be continuing after any applicable grace and cure periods in the Note, the Mortgage, the Loan Agreement, the Bond Resolution, the Regulatory Agreement, any of the other Bond Documents or any of the other Credit Facility Documents (as such terms are defined in the Credit Agreement);

(ii) Mortgagor shall be in default under any of the provisions or covenants of the Credit Agreement (i) for payment to reimburse any drawing under the Letter of Credit, or (ii) beyond any applicable cure periods in the case of any other default;

(iii) an "Event of Taxability" shall occur which term is defined under the Credit Agreement to be any event the result of which is that interest on any 2004 Bonds issued under the Resolution to which the tax covenants of the Resolution apply shall not be excludable from gross income for Federal income tax purposes, other than by reason of any such Bonds being held by a person who, within the meaning of Section 147(a) of the Code is a substantial user of the premises and the improvements (the

“Improvements”) to be constructed in connection with the Project, or is a related person, within the meaning of said Section 147(a);

(iv) any survey required or requested by the Bank shows any material adverse condition not approved by the Bank and such condition is not removed within the applicable time period after notice by the Bank to the Mortgagor;

(v) renovation of the Project is not completed substantially in accordance with the plans and specifications pursuant to the provisions of the Credit Agreement on or before the completion date specified therein, subject to force majeure;

(vi) operation of the Project is suspended for a period of thirty (30) consecutive days (other than by reason of the occurrence of an event of force majeure), or if in the reasonable judgment of the Bank or a construction consultant to be retained pursuant to the terms of the Credit Agreement, renovation of the Improvements is not carried on with reasonable diligence;

(vii) the Mortgagor fails to obtain and maintain a partial exemption from real property taxes for the Improvements pursuant to Section 577 of the Private Housing Finance Law of the State of New York;

(viii) the Mortgagor shall fail to cover any Construction Loan Project Cost Deficiency, any General Project Loan Deficiency or any Non-Qualified Cost Deficiency (as such terms are defined in the Credit Agreement) in the manner and within the time period specified in the Credit Agreement;

(ix) Except for any leases of equipment and similar items in the ordinary course of Mortgagor’s business, the Mortgagor executes any chattel mortgage or other security agreement (except in favor of the Bank as security for the Credit Facility) with respect to any materials, equipment, furniture or fixtures used in the renovation of the Project or the operation of the Project or with respect to any articles of personal property constituting part of the Project, or if any such materials, equipment, furniture, fixtures or articles of personal property are not substantially in accordance with the plans and specifications or are leased or purchased pursuant to any conditional sales contract or other security agreement or otherwise so that the ownership thereof will not vest unconditionally in Mortgagor free from encumbrances upon being made a part of the Project;

(x) any Credit Facility Document shall cease to be in full force or effect or shall cease to constitute, or to continue as, a lien on the assets, property or collateral purported to be encumbered thereby, and such default has not been cured within twenty (20) Business Days after notice thereof by the Bank to the Mortgagor or such additional time as is reasonably necessary to cure such default provided that such default is susceptible to cure and such extended time does not exceed an additional thirty (30) days;

(xi) any Guarantor pursuant to any guaranty or environmental indemnity executed and delivered by such Guarantor, shall disclaim all or any portion of such Guarantor’s obligations pursuant to any such Guaranty, shall otherwise be in default, beyond the expiration of any applicable grace and cure periods, under any such Guaranty; or if there is a material adverse change in the financial condition of any Guarantor, so long as any Guaranty remains in effect;

(xii) a default beyond any applicable notice and cure period shall occur and be continuing under the documentation executed in connection with the receipt and/or sale of the Tax Credits (as such term is defined in the Credit Agreement), and such default has a material adverse effect on the Mortgagor or the Property;

(xiii) a default beyond any applicable notice and cure period shall occur under any other note or loan agreement given by Mortgagor to Bank;

(xiv) a default beyond any applicable notice and cure period shall occur under any deed applicable to the Property;

(xv) except for leases of individual residential units and non-residential space in the ordinary course of business, if Mortgagor shall sell, assign, or transfer the Property or any part thereof or if any direct or indirect transfer or change in Mortgagor occurs, in whole or in part, without the prior written consent of Bank, except that Bank will consent to a syndication of the low income housing tax credits and a transfer of limited partnership interests in connection therewith and the transfer of beneficial ownership to the Tax Credit Purchaser (as such term is defined in the Credit Agreement);

(xvi) any representation or warranty made to Bank or Corporation in the Credit Agreement, any of the Bond Documents or any of the other Credit Facility Documents (as such terms are defined in the Credit Agreement) shall be incorrect in any material respect when made or remade;

(xvii) certain acts of bankruptcy occur;

(xviii) final judgment for the payment of money shall be rendered against Mortgagor and Mortgagor shall not discharge the same or cause it to be discharged within ninety (90) days from the entry thereof, or shall not appeal therefrom or from the order, decree or process upon which or pursuant to which said judgment was granted, based or entered, and secure a stay of execution pending such appeal;

(xix) for so long as any Guaranty (as such term is defined in the Credit Agreement) remains in effect, any of the events enumerated in clauses (xvii) or (xviii) of this Section shall happen to any Guarantor or any of Guarantor's property;

(xx) a default by Mortgagor which is not cured within the applicable grace period, if any, under any loan in excess of \$50,000 under which Mortgagor is the obligor;

(xxi) Mortgagor shall violate or allow to be violated, beyond any applicable notice and cure periods, any applicable law, rule, regulation or ordinance of Corporation or the New York State Division of Housing and Community Renewal which is applicable to Mortgagor and/or the Property, and such violation has a material adverse effect on the Mortgagor or the Property;

(xxii) Mortgagor shall do any act or fail to do any act which constitutes or causes a violation under any law, rule, regulation or ordinance governing the granting of the Tax Credits (as such term is defined in the Credit Agreement) to Mortgagor or the Property which causes a material adverse effect on the Mortgagor or the Property;

(xxiii) Mortgagor fails to comply beyond any applicable notice or cure period with the provisions of the Credit Agreement with respect to the Principal Reserve Fund;

(xxiv) (i) Mortgagor fails to pay when due or within the applicable grace period any amount payable by Mortgagor under any Hedging Arrangement (as such term is defined in the Credit Agreement), or (ii) there occurs any other default, beyond any applicable notice and cure period, by Mortgagor under any Hedging Arrangement;

(xxv) Mortgagor fails to satisfy the Conversion Conditions (as such term is defined in the Credit Agreement) by a date that is twelve (12) months from the date of the Credit Agreement;

(xxvi) Mortgagor fails to obtain any required building permits for renovation of the Project within thirty (30) days from the date of the Credit Agreement; or

(xxvii) Mortgagor shall fail to comply with any financial covenants specified in the Credit Agreement in all material respects and for so long as such financial covenants are in effect and such failure continues for thirty (30) days after notice by Bank to Mortgagor.

Remedies. During the continuance of any such event of default, the Bank may do any or all of the following:

- (i) declare the indebtedness evidenced and secured by the Mortgage Note and the Mortgage immediately due and payable;
- (ii) give notice to the Trustee that an event of default under the Credit Agreement has occurred and direct that the Trustee (a) accelerate the 2004 Bonds and call Outstanding 2004 Bonds for redemption in whole or in part in accordance with the Resolution (such redemption to be effected with the proceeds of a draw under the Letter of Credit); (b) cause a purchase of the 2004 Bonds in whole or in part in accordance with the Resolution (such purchase to be effected with the proceeds of a draw under the Letter of Credit); or (c) take such actions as are permitted by the Resolution and the Credit Facility Documents;
- (iii) demand immediate payment of any amounts due or to become due under any Credit Facility Documents;
- (iv) take possession and control of the Project, whereupon the Bank may discontinue or complete the renovation of the Project, at the Mortgagor's expense;
- (v) cease authorizing Bond Trustee to make disbursements of Bond Proceeds to Mortgagor;
- (vi) require cash collateral or letters of credit aggregating an amount equal to the amount of the Letter of Credit less adjustments in accordance with the Credit Agreement;
- (vii) pursue any other action available under the Credit Facility Documents (subject to the terms and provisions of the Assignment), at law or in equity; and/or
- (viii) authorize disbursement from the Principal Reserve Fund in accordance with the Bond Resolution.

The Bank, acting in accordance with the provisions of the Credit Agreement, will have sole discretion as to which, if any, of the foregoing remedies will be exercised by the Bank. Accordingly, an event of default under the Credit Agreement may not result in an Event of Termination under the Resolution.

#### **AGREEMENT OF THE STATE**

Section 657 of the Act provides that the State agrees with the holders of obligations of the Corporation, including owners of the 2004 Bonds, that it will not limit or alter the rights vested by the Act in the Corporation to fulfill the terms of any agreements made with the owners of the 2004 Bonds, or in any way impair the rights and remedies of such owners until the 2004 Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners of the 2004 Bonds, are fully met and discharged.

#### **TAX MATTERS**

##### Opinion of Bond Counsel to the Corporation

In the opinion of Bond Counsel to the Corporation, under existing statutes and court decisions, (i) interest on the 2004 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any 2004 Bond for any period during which such 2004 Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of such issue of the 2004 Bonds or a "related person," and (ii) interest on the 2004 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering such opinion, Bond Counsel to the Corporation has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation, the Mortgagor and others, in connection with the 2004 Bonds, and Bond Counsel to the Corporation has assumed compliance by the Corporation and the Mortgagor with certain ongoing covenants to

comply with applicable requirements of the Code to assure the exclusion of interest on the 2004 Bonds from gross income under Section 103 of the Code.

In the opinion of Bond Counsel to the Corporation, under existing statutes, interest on the 2004 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Bond Counsel to the Corporation expresses no opinion regarding any other Federal or state tax consequences with respect to the 2004 Bonds. Bond Counsel to the Corporation renders its opinion 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 to the Corporation 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 2004 Bonds, or under state and local tax law.

#### Summary of Certain Federal Tax Requirements

Under applicable provisions of the Code, the exclusion from gross income of interest on the 2004 Bonds for purposes of Federal income taxation requires that (i) at least 25% of the units in the Project financed by the 2004 Bonds be occupied during the "Qualified Project Period" (defined below) by individuals whose incomes, determined in a manner consistent with Section 8 of the United States Housing Act of 1937, as amended, do not exceed 60% of the median income for the area, and (ii) all of the units of the Project be rented or available for rental on a continuous basis during the Qualified Project Period. "Qualified Project Period" for the Project means a period commencing upon the later of (a) occupancy of 10% of the units in the Project or (b) the date of issue of the 2004 Bonds and running until the later of (i) the date which is 15 years after occupancy of 50% of the units in the Project, (ii) the first date on which no tax-exempt private activity bonds issued with respect to the Project are outstanding, or (iii) the date on which any assistance provided with respect to the Project under Section 8 of the 1937 Housing Act terminates. The Project will meet the continuing low income requirement as long as the income of the individuals occupying the unit does not increase to more than 140% of the applicable limit. Upon an increase over 140% of the applicable limit, the next available unit of comparable or smaller size must be rented to an individual having an income of 60% or less of the area median income. In the event of noncompliance with the above requirements arising from events occurring after the issuance of the 2004 Bonds, the Treasury Regulations provide that the exclusion of interest on the 2004 Bonds from gross income for Federal income tax purposes will not be impaired if the Corporation takes appropriate corrective action within a reasonable period of time after such noncompliance is first discovered or should have been discovered by the Corporation.

The Code establishes certain additional requirements which must be met subsequent to the issuance and delivery of the 2004 Bonds in order that interest on the 2004 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 the use and expenditure of the proceeds of the 2004 Bonds, yield and other limits regarding investment of the proceeds of the 2004 Bonds and other funds, and rebate of certain investment earnings on such amounts on a periodic basis to the United States.

The Corporation has covenanted in the Resolution that it shall at all times do and perform all acts and things permitted by law necessary or desirable in order to assure that interest paid on the 2004 Bonds shall be excluded from gross income for Federal income tax purposes. In furtherance thereof, the Corporation is to enter into the Regulatory Agreement with the Mortgagee to assure compliance with the Code. However, no assurance can be given that in the event of a breach of any such covenants, or noncompliance with the procedures or certifications set forth therein, the remedies available to the Corporation and/or 2004 Bond owners can be judicially enforced in such manner as to assure compliance with the above-described requirements and therefore to prevent the loss of the exclusion of interest from gross income for Federal income tax purposes. Any loss of such exclusion of interest from gross income and may be retroactive to the date from which interest on the 2004 Bonds is payable.

### Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2004 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2004 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 2004 Bonds.

Prospective owners of 2004 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and certain foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2004 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.

Legislation affecting municipal bonds is frequently considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2004 Bonds will not have an adverse effect on the tax-exempt status of the 2004 Bonds or the market price of the 2004 Bonds.

### **NO LITIGATION**

#### The Corporation

At the time of delivery and payment for the 2004 Bonds, the Corporation will deliver, or cause to be delivered, a certificate of the Corporation substantially to the effect that there is no litigation or other proceeding now pending or threatened against the Corporation of which the Corporation has notice or, to the knowledge of the Corporation, any basis therefor, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2004 Bonds, or in any way contesting or affecting the validity of the 2004 Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof or the financing of the Mortgage Loan or the pledge or application of any moneys or security provided for the payment of the 2004 Bonds or the existence or powers of the Corporation, or contesting in any material respect the completeness or accuracy of the Official Statement or any supplement or amendment thereto, or challenging the exclusion of interest on the 2004 Bonds from gross income for Federal income tax purposes. For a description of the recent developments at the Corporation, see “THE CORPORATION—Recent Developments” herein.

#### The Mortgagor

At the time of delivery and payment for the 2004 Bonds, the Mortgagor will deliver, or cause to be delivered, a certificate of the Mortgagor substantially to the effect that, there is no litigation of any nature now pending or, to the knowledge of the Mortgagor or its partners, threatened against or adversely affecting the existence of the Mortgagor, its partners or the Guarantors, involving the Project or seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2004 Bonds or the financing of the Mortgage Loan or the acquisition or renovation of the Project, or in any way contesting or affecting the validity or enforceability of the 2004 Bonds or the 2004 Bond documents to which the Mortgagor is a party or any proceedings of the Mortgagor taken with respect to the sale, execution or delivery thereof, or the application of any moneys or security provided for the payment of the 2004 Bonds, or contesting in any way the completeness or accuracy of the Official Statement or contesting the powers or authority of the Mortgagor with respect to the 2004 Bond documents to which it is a party or, to the knowledge of the Mortgagor or its partners, without independent inquiry, challenging the exclusion of interest on the 2004 Bonds from gross income for Federal income tax purposes.

See “THE PROJECT AND THE MORTGAGOR - The Project” for a description of certain pending litigation relating to the Project.

## **CERTAIN LEGAL MATTERS**

All legal matters incident to the authorization, issuance, sale and delivery of the 2004 Bonds by the Corporation are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its General Counsel. Certain legal matters will be passed upon for the Bank by its counsel, Heller Ehrman White & McAuliffe, LLP, New York, New York. Certain legal matters will be passed upon for the Mortgagor by its special counsel, Cannon Heyman & Weiss, LLP, Albany, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Winston & Strawn LLP, New York, New York.

## **LEGALITY OF 2004 BONDS FOR INVESTMENT AND DEPOSIT**

Under the provisions of Section 662 of the Act, the 2004 Bonds are made securities in which all public officers and bodies of the State of New York and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or in other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. The 2004 Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

## **RATINGS**

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned to the 2004 Bonds a rating of "AA/A-1+". Such rating reflects only the view of such organization and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if in its judgment, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of the 2004 Bonds.

## **FURTHER INFORMATION**

The information contained in this Official Statement is subject to change without notice and no implication should be derived therefrom or from the sale of the 2004 Bonds that there has been no change in the affairs of the Corporation from the date hereof. Pursuant to the Resolution, the Corporation has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the Resolution and to cause such books to be audited for each fiscal year. The Resolution requires that such books be open to inspection by the Trustee and the owners of not less than 5% of the 2004 Bonds issued thereunder during regular business hours of the Corporation and that the Corporation furnish a copy of the auditor's report, when available, upon the request of the owner of any Outstanding 2004 Bond.

Additional information may be obtained from the undersigned at 110 William Street, 10<sup>th</sup> Floor, New York, New York 10038, (212) 227-5500 or through its internet address: [www.nychdc.com](http://www.nychdc.com).

## **MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such, and not as representations of fact. This Official Statement is not to be construed as an agreement or contract between the Corporation and the purchasers or owners of any 2004 Bonds.





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**DEFINITIONS OF CERTAIN TERMS**

This Appendix A contains definitions of certain terms contained in the Resolution, Letter of Credit, Credit Agreement, Assignment and Mortgage Note. This Appendix A does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Resolution, Letter of Credit, Credit Agreement, Assignment and Mortgage Note, copies of which may be obtained from the Corporation. The following terms shall have the following meanings in the Resolution, Letter of Credit, Credit Agreement, Assignment and Mortgage Note for the 2004 Bonds unless the context shall clearly indicate otherwise.

“Account” means one of the special accounts (other than the Rebate Fund) created and established pursuant to the Resolution, including the Principal Reserve Fund.

“Accountant” means such reputable and experienced independent certified public accountant or firm of independent certified public accountants as may be selected by the Corporation and satisfactory to the Trustee and may be the accountant or firm of accountants who regularly audit the books and accounts of the Corporation.

“Act of Bankruptcy” means the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the Mortgagor, any partner of the Mortgagor, the Corporation or the Credit Issuer, as applicable, under any applicable bankruptcy, insolvency, reorganization or similar law, now or hereafter in effect.

“Additional Bonds” means Bonds, other than the 2004 Bonds, authorized pursuant to the Resolution.

“Administrative Fee” means the servicing fee of the Corporation in the amount set forth in the Financing Commitment and Agreement dated December 14, 2004, between the Corporation, the Mortgagor, and certain of the Guarantors, as the same may be amended or supplemented from time to time, plus the amount specified in a Supplemental Resolution in connection with the issuance of Additional Bonds.

“Alternate Security” means with respect to a Series of Bonds any instrument in effect and purpose similar to the Letter of Credit, including, but not limited to, a letter of credit, guaranty, standby loan commitment, bond or mortgage insurance policy, standby purchase agreement, credit enhancement instrument, collateral agreement or surety bond, mortgage backed security or other credit or liquidity facility, or any combination thereof, (i) approved by the Corporation and delivered to the Trustee for the benefit of the owners of the 2004 Bonds (except that a mortgage insurance policy may be delivered to the Corporation), (ii) replacing any existing Credit Facility, (iii) dated as of a date not later than the expiration date of the Credit Facility for which the same is to be substituted, if a Credit Facility is then in effect, (iv) which shall expire not earlier than a date which is fifteen (15) days after an Interest Payment Date for the 2004 Bonds, and (v) issued on substantially similar terms and conditions with respect to the rights of the owners of such Series of Bonds (including, but not limited to, the Mandatory Purchase Provision) as the then existing Credit Facility with respect to a Series of Bonds provided that (a) the stated amount of the Alternate Security shall equal the sum of (x) the aggregate principal amount of Bonds of such Series at the time Outstanding, plus (y) during a Weekly Rate Period, an amount at least equal to 35 days of interest (at the Maximum Rate) on all Bonds of such Series at the time Outstanding, or such other amount as the Corporation shall determine based on then current rating agency standards, and (b) if said Alternate Security is to be in effect during a Weekly Rate Period, it must provide for payment of the Purchase Price upon the exercise by any Bond owner with respect to a Series of Bonds of the applicable Demand Purchase Option.

“Assignment” means the Assignment and Servicing Agreement, with respect to the Mortgage Loan, among the Corporation, the Trustee, the Credit Issuer and the Mortgagor, as the same may be amended or supplemented from time to time.

“Authorized Officer” means (a) when used with respect to the Corporation, the Chairperson, Vice-Chairperson, President, Executive Vice President or any Senior Vice President of the Corporation and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Corporation then authorized to perform such act or discharge such duty; (b) when used with respect to the Mortgagor, any general

partner of the Mortgagor and, in the case of any act to be performed or duty to be discharged, any other officer or employee of the Mortgagor then authorized to perform such act or discharge such duty; (c) when used with respect to the Credit Issuer, any Vice President or Managing Director of the Credit Issuer and, in the case of any act to be performed or duty to be discharged, any other officer or employee of the Credit Issuer then authorized to perform such act or discharge such duty; and (d) when used with respect to the Trustee, any Managing Director, Director, Vice President or corporate trust administrator of the Trustee, and, in the case of any act to be performed or duty to be discharged, any other officer or employee of the Trustee then authorized to perform such act or discharge such duty.

“Available Moneys” means, during the term of any Credit Facility, (i) moneys drawn under such Credit Facility, or (ii) moneys deposited into the Accounts established under the Resolution or moneys deposited directly by the Mortgagor with the Trustee, which moneys, in either case, have been on deposit with the Trustee for at least 91 days during and prior to which no Act of Bankruptcy with respect to the Mortgagor, any partner of the Mortgagor or the Corporation shall have occurred; provided, however, that if the Trustee shall have received a written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to the Trustee to the effect that payments made to Bond owners with moneys on deposit with the Trustee for a number of days less than that set forth above during which no Act of Bankruptcy with respect to the Mortgagor, any partner of the Mortgagor or the Corporation shall have occurred would not constitute an avoidable preference under Section 547 of the Bankruptcy Reform Act of 1978, as amended, then the number of days specified in such opinion shall be substituted for the 91 days in this definition, or (iii) the proceeds from investment of moneys qualifying as Available Moneys under clause (i) or (ii) above, or (iv) the proceeds of Additional Bonds; provided, however, that with respect to the proceeds of Additional Bonds, the Trustee shall have received a written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to the Trustee to the effect that payments made to Bond owners with such proceeds would not constitute an avoidable preference under Section 547 of the Bankruptcy Reform Act of 1978, as amended. Notwithstanding the foregoing, (a) when used with respect to amounts due in respect of Pledged Bonds, the term “Available Moneys” shall mean any amounts held by the Trustee and the proceeds of the investment thereof, except for moneys drawn under a Credit Facility and (b) during any period in which no Credit Facility is in effect, “Available Moneys” shall mean any moneys.

“Bank” means Citibank, N.A.

“Bond” means one of the bonds to be authenticated and delivered pursuant to the Resolution.

“Bond Counsel” means an 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 Corporation after consultation with the Credit Issuer and the Mortgagor, and satisfactory to the Trustee.

“Bond Counsel’s Opinion” means an opinion signed by Bond Counsel.

“Bond Market Association Municipal Swap Index<sup>TM</sup>” means the rate equal to the index of the weekly interest rate resets of the tax-exempt variable rate issues included in a database maintained by Municipal Market Data, a Thomson Financial Services Company, or its successors.

“Bond owner” or “owner” or words of similar import, when used with reference to a Bond, means any person who shall be the registered owner of any Outstanding Bond.

“Bond Proceeds Account” means the Bond Proceeds Account established pursuant to the Resolution.

“Bond Year” means a twelve-month period ending on the anniversary of the date of issuance of a Series of Bonds in any year.

“Business Day” means any day other than (a) a Saturday or a Sunday, (b) any day on which banking institutions located in the City of New York, New York, or the city or cities in which the Principal Office of the Trustee or the office of the Credit Issuer to which draws on the Credit Facility are presented is located are required

or authorized by law to close, (c) a day on which the New York Stock Exchange is closed, or (d) so long as any Series of Bonds is held in book-entry form, a day on which DTC is closed.

“Certificate” means (a) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the Resolution or (b) the report of an accountant as to audit or other procedures called for by the Resolution.

“Change Date” means, with respect to the 2004 Bonds, (i) an Interest Method Change Date or (ii) a Facility Change Date or (iii) a date specified by the Credit Issuer pursuant to the provisions of the Resolution for carrying out a purchase of 2004 Bonds pursuant to the Resolution in connection with an Event of Termination or (iv) a date specified by the Corporation pursuant to the provisions of the Resolution for carrying out a purchase of 2004 Bonds pursuant to the Resolution in connection with a Notice of Prepayment of the Mortgage Loan.

“City” means The City of New York, a municipal corporation organized and existing under and pursuant to the laws of the State.

“Code” means the Internal Revenue Code of 1986, as amended.

“Corporation” means the New York City Housing Development Corporation, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of the Corporation.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation and related to the authorization, sale and issuance of Bonds, including but not limited to underwriting discount or fee, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee and the Credit Issuer, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit rating(s), fees and charges for preparation, execution, transportation and safekeeping of Bonds, the financing fee of the Corporation, and any other cost, charge or fee in connection with the original issuance of Bonds.

“Credit Agreement” means the agreement between the Mortgagor and the Credit Issuer (and may include other parties), providing for the issuance of the Credit Facility.

“Credit Facility” means the Letter of Credit or Alternate Security, as the case may be, then providing for the timely payment of the principal of and interest on and Purchase Price, if applicable, of the Bonds.

“Credit Facility Documents” means, collectively, the Credit Agreement, the Loan Agreement, the Mortgage Note, the Mortgage, the Guaranty and all other instruments of any nature whatsoever now or hereafter executed and delivered in connection with the Credit Facility.

“Credit Facility Payments” means amounts obtained under a Credit Facility with respect to the Bonds including, but not limited to, amounts drawn under the Letter of Credit.

“Credit Issuer” means the issuer of or obligor under the Credit Facility; provided, however, that if, pursuant to the Credit Agreement, the issuer of or obligor under the Credit Facility shall have appointed an agent on its behalf (which agent may, but need not, act on behalf of other parties as well) and given notice to the Corporation and the Trustee of such appointment, references in the Resolution to the Credit Issuer shall be deemed to refer to said agent, except that with respect to the issuance of such Credit Facility and the obtaining of amounts thereunder, references in the Resolution to the Credit Issuer shall be deemed to refer to such issuer or obligor under such Credit Facility.

“Debt Service” means, with respect to any particular Bond Year, an amount equal to the sum of (i) all interest payable on Outstanding Bonds during such Bond Year, plus (ii) any Principal Installment of such Bonds payable during such Bond Year.

“Demand Purchase Option” means during a Weekly Rate Period, the provision of the 2004 Bonds for purchase of any such Bond upon the demand of the owner thereof as described in the Resolution.

“Direct Participants” means those broker dealers, banks and other financial institutions for which DTC holds the 2004 Bonds as securities depository.

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

“Escrow Payments” means and includes all amounts whether paid directly to the Corporation, to its assignee of the Mortgage Loan, or to the servicer of the Mortgage Loan representing payments to obtain or maintain mortgage insurance or any subsidy with respect to the Mortgage Loan or the mortgaged premises or payments in connection with real estate taxes, assessments, water charges, sewer rents, fire or other insurance, replacement or operating reserves, the Administrative Fee of the Corporation or other like payments in connection therewith.

“Event of Default” means any of the events specified in the Resolution as an Event of Default.

“Event of Termination” means the event specified in the Resolution as an Event of Termination.

“Facility Change Date” means (i) any date on which a new Credit Facility replaces the prior Credit Facility, or (ii) any date on which the Credit Facility terminates or expires and is not extended or replaced by a new Credit Facility; provided, however, that if, in connection with the issuance of Additional Bonds, an existing Credit Facility is replaced by a Credit Facility issued by the same Credit Issuer that had issued the then existing Credit Facility and such replacement Credit Facility is issued on substantially identical terms and conditions with respect to the rights of the owners of the Bonds (including, but not limited to, the Mandatory Purchase Provision) as the then existing Credit Facility with respect to the Bonds, except that the stated amount of such replacement Credit Facility shall reflect the issuance of such Additional Bonds, then no Facility Change Date shall be deemed to have occurred as a result of such replacement so long as such replacement does not result in the reduction or withdrawal of the then existing rating(s) on the Bonds by the national rating agency or agencies then rating the Bonds.

“Government Obligations” means (i) direct obligations of or obligations guaranteed by the United States of America, including, but not limited to, United States Treasury Obligations, Separate Trading of Registered Interest and Principal of Securities (STRIPS) and Coupons Under Book-Entry Safekeeping (CUBES), provided the underlying United States Treasury Obligation is not callable prior to maturity, and (ii) obligations of the Resolution Funding Corporation, including, but not limited to, obligations of the Resolution Funding Corporation stripped by the Federal Reserve Bank of New York.

“Guarantors” means Maurice S. Vaughn, Eugene Schneur, Leonard D’Amico, Peter Florey, Alliant Capital, Ltd. and (with respect to the Completion Guaranty only) Jericho Services, Inc.

“Guaranty” means, collectively, the Completion Guaranty, executed by Maurice S. Vaughn, Eugene Schneur, Leonard D’Amico, Peter Florey, Alliant Capital, Ltd. and Jericho Services, Inc., to the Bank and the Carve-Out Guaranty, executed by Maurice S. Vaughn, Eugene Schneur, Leonard D’Amico, Peter Florey and Alliant Capital, Ltd., to the Bank, each dated as of the date of initial issuance of the 2004 Bonds.

“Interest Method Change Date” means any date on which the method of determining the interest rate on the 2004 Bonds changes or which is an Interest Adjustment Date pursuant to the Resolution, as established by the terms and provisions of the Resolution.

“Interest Payment Date” means any date upon which interest on the Bonds is due and payable in accordance with their terms.

“Investment Securities” means and includes any of the following obligations, to the extent the same are at the time legal for investment of funds of the Corporation under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) Government Obligations;

(2) any bond, debenture, note, participation certificate or other similar obligation issued by any one or combination of the following agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit System Banks Consolidated Obligations, Banks for Cooperatives, Tennessee Valley Authority, Washington Metropolitan Area Transportation Authority, United States Postal Service, Farmers' Home Administration and Export-Import Bank of the United States;

(3) any bond, debenture, note, participation certificate or other similar obligation issued by any Federal agency and backed by the full faith and credit of the United States of America;

(4) any other obligation of the United States of America or any Federal agencies which may be purchased by New York State Savings Banks;

(5) deposits in interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements (i) secured by any of the obligations described above, or (ii) fully insured by the Federal Deposit Insurance Corporation, or (iii) made with banking institutions, or their parents which either (a) have unsecured debt rated in one of the three highest rating categories of a nationally recognized rating service or (b) are deemed by a nationally recognized rating service to be an institution rated in one of the three highest rating categories of such rating service;

(6) any participation certificate of the Federal Home Loan Mortgage Corporation and any mortgage-backed securities of the Federal National Mortgage Association;

(7) short-term corporate obligations, known as Commercial Paper, with a maturity of up to ninety days which are issued by corporations that are deemed by a nationally recognized rating service to be in the highest rating category of such rating service;

(8) obligations of the City and State of New York;

(9) obligations of the New York City Municipal Water Finance Authority;

(10) obligations, the principal and interest of which, are guaranteed by the City or State of New York;

(11) obligations in which the Comptroller of the State of New York is authorized to invest in as specified in section ninety-eight of the State Finance Law, as amended from time to time; and

(12) any other investment permitted under the Corporation's investment guidelines adopted August 14, 1984, as amended from time to time.

"Letter of Credit" means the irrevocable direct-pay letter of credit issued by Citibank, N.A., in favor of the Trustee, securing the 2004 Bonds on their initial issuance, or the Substitute Letter of Credit, if any.

"Letter of Credit Payments Sub-Account" means the Letter of Credit Payments Sub-Account established pursuant to the Resolution.

"Loan Agreement" means the Construction Loan Agreement, dated as of the date of initial issuance of the 2004 Bonds, by and between the Corporation and the Mortgagor, with respect to the Mortgage Loan, as the same may be amended or supplemented from time to time.

"Mandatory Purchase Provision" means the purchase provision of the 2004 Bonds for the purchase of any 2004 Bonds on any Change Date pursuant to the Resolution.

"Maximum Rate" means ten percent (10%) per annum or such higher rate, not to exceed fifteen percent (15%), as may be established in accordance with the provisions of the Resolution.

“Mortgage” means, collectively, the mortgages or other instruments securing the Mortgage Loan, executed by the Mortgagor and TC Housing Development Fund Company, Inc., as the same may be amended, modified or supplemented from time to time.

“Mortgage Documents” means, collectively, (a) the Mortgage and (b) the Mortgage Note, each dated the date of initial issuance of the 2004 Bonds.

“Mortgage Loan” means, collectively, the interest-bearing loan or loans, evidenced by the Mortgage Note, to be made by the Corporation to the Mortgagor pursuant to the Loan Agreement, as the same may be amended, modified or supplemented from time to time.

“Mortgage Note” means, collectively, the note or notes of the Mortgagor evidencing the obligation to repay the Mortgage Loan, as the same may be amended, modified or supplemented from time to time.

“Mortgagor” means St. Ann’s 350 Limited Partnership, a New York limited partnership, and its successors and permitted transferees as owner of the Project.

“Mortgagor Tax Certification” means, with respect to a Series of Bonds to which the tax covenants of the Resolution are applicable, the tax certification of the Mortgagor delivered to the Corporation and Bond Counsel in connection with the issuance of such Series of Bonds.

“Notice of Prepayment of the Mortgage Loan” means the notice delivered to the Trustee by the Corporation pursuant to the provisions of the Resolution with respect to the Mortgagor’s election to prepay, in full, the portion of the Mortgage Loan relating to all of the 2004 Bonds bearing interest at the Weekly Rate.

“Outstanding”, when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (2) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Resolution; and
- (3) any Bond deemed to have been paid as provided in the Resolution.

“Permitted Encumbrances” means such liens, encumbrances, declarations, reservations, easements, rights-of-way and other clouds on title as do not materially impair the use or value of the premises for the intended purposes.

“Pledge Agreement” means any instrument from the Mortgagor to the Credit Issuer (and which may include other parties) pursuant to which the Mortgagor agrees to pledge 2004 Bonds to the Credit Issuer (and, if applicable, such other parties) in connection with the provision of moneys under a Credit Facility.

“Pledged Bond” means any 2004 Bond pledged to the Credit Issuer pursuant to the Pledge Agreement in connection with the provision of moneys under the Credit Facility and as described in the Resolution.

“Pledged Receipts” means (i) the scheduled or other payments required by the Mortgage Loan and paid to or to be paid to the Corporation from any source, including both timely and delinquent payments, (ii) accrued interest, if any, received upon the initial issuance of the 2004 Bonds and (iii) all income earned or gain realized in excess of losses suffered on any investment or deposit of moneys in the Accounts established and maintained pursuant to the Resolution, but shall not mean or include amounts required to be deposited into the Rebate Fund, Recoveries of Principal, any Escrow Payments, late charges or any amount entitled to be retained by the servicer (which may include the Corporation) of the Mortgage Loan, as administrative, financing, extension or settlement fees.



“Principal Installment” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in the Resolution, of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

“Principal Office”, when used with respect to the Trustee, shall mean The Bank of New York, 101 Barclay Street, Floor 21W, New York, New York 10286, when used with respect to the Tender Agent shall mean the same address as that of the Trustee or the address of any successor Tender Agent appointed in accordance with the terms of the Resolution, and when used with respect to the Remarketing Agent shall mean Citigroup Global Markets Inc., 390 Greenwich Street, 2nd Floor, New York, New York 10013 or such other offices designated to the Corporation in writing by the Trustee, Tender Agent or any Remarketing Agent, as the case may be.

“Principal Reserve Amount” means \$3,900,000 (or such other amount as shall be specified in writing by the Credit Issuer and filed with the Corporation and the Trustee) less the amount on deposit in any collateral or sinking fund held by the Trustee or certified by the Mortgagor as being held as security for, or to pay, the obligations of the Mortgagor relating to debt service on the Mortgage Loan; provided that such other amount shall only constitute the Principal Reserve Amount if there shall also be filed with the Corporation and the Trustee a Bond Counsel’s Opinion to the effect that such change in the Principal Reserve Amount will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Bonds to which the tax covenants of the Resolution apply.

“Principal Reserve Fund” means the Principal Reserve Fund established pursuant to the Resolution.

“Project” means the multifamily rental housing development, located at 350 St. Ann’s Avenue in the Borough of the Bronx and County of the Bronx, City and State of New York, as more fully described under the caption “THE PROJECT AND THE MORTGAGOR – The Project” herein.

“Purchase Price” means an amount equal to one hundred percent (100%) of the principal amount of any 2004 Bond plus accrued and unpaid interest thereon to the date of purchase.

“Rebate Amount” means, with respect to a particular Series of Bonds to which the tax covenants of the Resolution are applicable, the amount, if any, required to be deposited in the Rebate Fund in order to comply with the tax covenants contained in the Resolution.

“Rebate Fund” means the Rebate Fund established pursuant to the Resolution.

“Record Date” means during any Weekly Rate Period, the Business Day immediately preceding any Interest Payment Date.

“Recoveries of Principal” means all amounts received by the Corporation or the Trustee as or representing a recovery of the principal amount disbursed by the Trustee in connection with the Mortgage Loan, including any premium or penalty with respect thereto, on account of (i) the advance payment of amounts to become due pursuant to such Mortgage Loan, at the option of the Mortgagor; (ii) the sale, assignment, endorsement or other disposition of the Mortgage Loan or Mortgage Documents other than the assignment by the Corporation effected by the Assignment; (iii) the acceleration of payments due under the Mortgage Loan or the remedial proceedings taken in the event of default on the Mortgage Loan or Mortgage; (iv) proceeds of any insurance award resulting from the damage or destruction of the Project which are to be applied to payment of the Mortgage Note pursuant to the Mortgage; or (v) proceeds of any condemnation award resulting from the taking by condemnation (or by agreement of interested parties in lieu of condemnation) by any governmental body or by any person, firm, or corporation acting under governmental authority, of title to or any interest in or the temporary use of, the Project or any portion thereof, which proceeds are to be applied to payment of the Mortgage Note pursuant to the Mortgage.

“Redemption Account” means the Redemption Account established pursuant to the Resolution.

“Redemption Date” means the date or dates upon which Bonds are to be called for redemption pursuant to the Resolution.

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

“Regulatory Agreement” means the Regulatory Agreement, dated as of the date of initial issuance of the 2004 Bonds, by and between the Corporation and the Mortgagor, as the same may be amended, restated or supplemented from time to time.

“Remarketing Agent” means, with respect to the 2004 Bonds, Citigroup Global Markets Inc. and its successors appointed in accordance with the terms of the Resolution.

“Remarketing Agreement” means with respect to the 2004 Bonds, the Remarketing Agreement, dated as of the date of initial issuance of the 2004 Bonds, by and among the Mortgagor, the Corporation and the Remarketing Agent, as the same may be amended or supplemented from time to time, or any replacement thereof.

“Resolution” means the Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments) Bond Resolution adopted by the Corporation on December 9, 2004 and any amendments or supplements made in accordance with its terms.

“Revenue Account” means the Revenue Account established pursuant to the Resolution.

“Revenues” means the Pledged Receipts and Recoveries of Principal.

“Series” means the 2004 Bonds or any series of Additional Bonds.

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

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw Hill Companies, Inc., and its successors and assigns, if such successors and assigns shall continue to perform the functions of a securities rating agency.

“State” means the State of New York.

“Substitute Letter of Credit” means, with respect to a Series of Bonds, an irrevocable letter of credit delivered to the Trustee for the benefit of the owners of the 2004 Bonds (i) issued by a bank approved by the Corporation, provided that the approval by the Corporation shall not be unreasonably withheld, (ii) replacing any existing Letter of Credit, (iii) dated as of a date not later than the expiration date of the Letter of Credit for which the same is to be substituted, (iv) which shall expire on a date not earlier than fifteen (15) days after an Interest Payment Date for such Series of Bonds, and (v) issued on substantially identical terms and conditions with respect to the rights of the owners of the 2004 Bonds (including, but not limited to, the Mandatory Purchase Provision) as the then existing Letter of Credit with respect to such Series of Bonds, except that the stated amount of the Substitute Letter of Credit shall equal the sum of (x) the aggregate principal amount of such Series of Bonds at the time Outstanding, plus (y) during a Weekly Rate Period, an amount equal to at least 35 days of interest (at the Maximum Rate) on all Bonds of such Series at the time Outstanding, or such other amount as the Corporation shall determine based on then current rating agency standards.

“Supplemental Resolution” means any resolution supplemental to or amendatory of the Resolution, adopted by the Corporation and effective in accordance with the Resolution.

“Tender Agent” means The Bank of New York, a New York banking corporation, and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party, or any successor Tender Agent appointed in accordance with the terms of the Resolution.

“Tender Agent Agreement” means the agreement among the Trustee, as Trustee and Tender Agent, the Corporation, the Mortgagor and the Remarketing Agent, dated as of the date of initial issuance of the 2004 Bonds, as the same may be amended or supplemented from time to time, or any replacement thereof.

“Trustee” means the trustee designated as Trustee in the Resolution and its successor or successors and any other person at any time substituted in its place pursuant to the Resolution.

“2004 Bonds” means the 2004 Series A Bonds authorized to be issued pursuant to the Resolution.

“Undelivered Bonds” means (i) with respect to the Mandatory Purchase Provision, any 2004 Bonds which have not been delivered to the Tender Agent for purchase on or prior to the Change Date, or (ii) with respect to the Demand Purchase Option, any 2004 Bonds not delivered to the Tender Agent for purchase after notice of tender within the time period prescribed by the Resolution.

“Weekly Effective Rate Date” means (i) with respect to the Weekly Rate Term immediately following the issuance and delivery of the 2004 Bonds, the date of such issuance and delivery, (ii) with respect to any Weekly Rate Term following another Weekly Rate Term, Wednesday of any week and (iii) with respect to a Weekly Rate Term that does not follow another Weekly Rate Term, the Interest Method Change Date with respect thereto.

“Weekly Rate” means the rate of interest on the 2004 Bonds, described in “DESCRIPTION OF THE 2004 BONDS—Weekly Rate Period.”

“Weekly Rate Period” means any period of time during which the 2004 Bonds bear interest at the Weekly Rate.

“Weekly Rate Term” means the period commencing on a Weekly Effective Rate Date and terminating on the earlier of the last calendar day prior to the Weekly Effective Rate Date of the following Weekly Rate Term, or the last calendar day prior to a Change Date.

“Wrongful Dishonor” means (i) an uncured and willful default by the Credit Issuer, or (ii) an uncured default resulting from the gross negligence of the Credit Issuer, in each case, of its obligations to honor a drawing as required pursuant to the terms of the Credit Facility and the Credit Agreement.

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## OTHER ACTIVITIES OF THE CORPORATION

The Corporation is engaged in the various activities and programs described below.

**I. BOND PROGRAMS.** The Corporation issues bonds and notes to fund mortgage loans for multi-family residential developments under the programs described below. The multi-family residential developments financed under the General Resolution are described below in “Section B – Housing Revenue Bond Program.” As of July 31, 2004, the Corporation had bonds outstanding in the aggregate principal amount of approximately \$3,923,580,533. All of the bonds are separately secured, except for the bonds issued under the General Resolution which are equally and ratably secured by the assets pledged under the General Resolution. None of the bonds under the bond programs described in “Section A–Multi-Family Program,” “Section C–Liberty Bond Program,” and “Section D–Section 223(f) Refinancing Program” provide security under the General Resolution, and none of the bonds under these programs is secured by the General Resolution.

A. Multi-Family Program. The Corporation established its Multi-Family Program to develop privately-owned multi-family rental housing, all or a portion of which is reserved for low income tenants. The following describes the Corporation’s activities under its Multi-Family Program.

(1) Rental Projects; Fannie Mae or Freddie Mac Enhanced: The Corporation has issued tax-exempt and/or taxable bonds which either (i) are secured by mortgage loan payments, which payments are secured by obligations of Fannie Mae under various collateral agreements, (ii) are secured by a Direct Pay Credit Enhancement Instrument issued by Fannie Mae or (iii) are secured by a Direct Pay Credit Enhancement Agreement with Federal Home Loan Mortgage Corporation (“Freddie Mac”).

(2) Rental Projects; Letter of Credit Enhanced: The Corporation has issued tax-exempt and/or taxable bonds to finance a number of mixed income projects and entirely low income projects, which bonds are secured by letters of credit issued by investment-grade rated commercial lending institutions.

(3) Rental Projects; FHA-Insured Mortgage Loan: The Corporation has issued bonds to finance a number of mixed income projects with mortgages insured by the Federal Housing Administration (“FHA”).

(4) Hospital Staff Housing; Credit Enhanced: The Corporation has issued bonds to provide financing for residential facilities for hospital staff, which bonds are secured by bond insurance or letters of credit issued by investment-grade rated institutions.

(5) Cooperative Housing; SONYMA-Insured Mortgage Loan: The Corporation has issued tax-exempt obligations in order to fund underlying mortgage loans to cooperative housing developments. Each mortgage loan in this program is insured by the State of New York Mortgage Agency (“SONYMA”).

(6) Rental Project; REMIC-Insured Mortgage Loan: The Corporation has issued tax-exempt bonds to finance a mortgage loan for a residential facility, which mortgage loan is insured by the New York City Residential Mortgage Insurance Corporation (“REMIC”), which is a subsidiary of the Corporation.

(7) Senior Housing; Letter of Credit Enhanced: The Corporation has issued tax-exempt obligations to finance a mortgage loan for low-income senior housing, which obligations are secured by letters of credit issued by investment-grade rated commercial lending institutions.

B. Housing Revenue Bond Program. Under its Housing Revenue Bond Program, the Corporation may issue bonds payable solely from and secured by the assets held under the General Resolution which include a pool of mortgage loans, some of which are construction loans (which pool contains FHA-insured mortgage loans, REMIC-insured mortgage loans, SONYMA-insured mortgage loans, GNMA mortgage-backed securities, other mortgage loans and participation interests in mortgage loans), the revenues received on account of all such loans and

securities, and other assets pledged under such resolution and any supplemental resolution for a particular series of bonds. Certain of the projects, which secure a portion of the mortgage loans, receive the benefits of subsidy payments. As of July 31, 2004, forty-two (42) series of bonds have been issued under the Housing Revenue Bond Program.

C. Liberty Bond Program. In accordance with Section 301 of the Job Creation and Worker Assistance Act of 2002, the Corporation has issued tax-exempt and taxable bonds, each secured by a letter of credit, to finance the development of multi-family housing within an area of lower Manhattan designated in such legislation as the “Liberty Zone.”

D. Section 223(f) Refinancing Program. Under this program, the Corporation acquires mortgages originally made by The City of New York (the “City”), obtains federal insurance thereon and either sells such insured mortgages or issues its obligations secured by said insured mortgages and pays the net proceeds of the sale of such mortgages or issuance of obligations to the City. Each series of bonds issued under this program is secured by a mortgage loan insured by FHA pursuant to Section 223(f) of Title II of the National Housing Act of 1934, as amended (the “National Housing Act”). Debt service on each series of bonds is paid only from monies received on account of the applicable mortgage loan securing such series, including, with respect to certain projects, interest reduction subsidy payments received by the Corporation pursuant to Section 236 of the National Housing Act.

The following table summarizes bonds outstanding under these bond programs as of July 31, 2004:

	<u>No. of Units</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Year of Issue</u>
<b><u>MULTI-FAMILY PROGRAM</u></b>				
<i>Multi-Family Rental Housing Revenue Bonds – Rental Projects; Fannie Mae or Freddie Mac Enhanced</i>				
Related-Carnegie Park	461	\$66,800,000	\$66,800,000	1997
Related-Columbus Green	95	\$13,775,000	\$13,775,000	1997
Related-Monterey	522	\$104,600,000	\$104,600,000	1997
Related-Tribeca Tower	440	\$55,000,000	\$55,000,000	1997
One Columbus Place Development	729	\$150,000,000	\$142,900,000	1998
Parkgate Development	207	\$37,315,000	\$36,500,000	1998
100 Jane Street Development	148	\$17,875,000	\$16,575,000	1998
Brittany Development	272	\$57,000,000	\$57,000,000	1999
West 43 <sup>rd</sup> Street Development	375	\$55,820,000	\$53,420,000	1999
Related-West 89 <sup>th</sup> Street Development	265	\$53,000,000	\$53,000,000	2000
Westmont Apartments	163	\$24,200,000	\$24,200,000	2000
Queenswood Apartments	296	\$10,800,000	\$10,800,000	2001
Related-Lyric Development	285	\$91,000,000	\$90,400,000	2001
James Tower Development	201	\$22,200,000	\$21,895,000	2002
The Foundry	222	\$60,400,000	\$60,100,000	2002
Related Sierra Development	212	\$56,000,000	\$56,000,000	2003
West End Towers	1,000	\$135,000,000	\$135,000,000	2004
Related Westport Development	371	\$124,000,000	\$124,000,000	2004

<i>Multi-Family Mortgage Revenue Bonds – Rental Projects; Fannie Mae or Freddie Mac Enhanced</i>				
Columbus Apartments Project	166	\$23,570,000	\$21,870,000	1995
West 48 <sup>th</sup> Street Development	109	\$22,500,000	\$20,000,000	2001
First Avenue Development	231	\$44,000,000	\$44,000,000	2002
<i>Multi-Family Mortgage Revenue Bonds – Rental Projects; Letter of Credit Enhanced</i>				
Fountains at Spring Creek Project	102	\$7,500,000	\$7,500,000	2001
The Lafayette Project	47	\$3,700,000	\$3,700,000	2001
Ninth Avenue Development	259	\$44,000,000	\$44,000,000	2002
400 West 55 <sup>th</sup> Street Development	149	\$65,000,000	\$65,000,000	2002
Atlantic Court Apartments	321	\$92,700,000	\$92,700,000	2003
Related-Upper East	262	\$70,000,000	\$70,000,000	2003
92 <sup>nd</sup> & First Residential Tower	196	\$57,300,000	\$57,300,000	2003
Manhattan Court Development	123	\$17,500,000	\$17,500,000	2004
East 165 <sup>th</sup> Street Development	136	\$13,800,000	\$13,800,000	2004
Aldus Street Apartments	164	\$14,200,000	\$14,200,000	2004
Hoe Avenue Apartments	136	\$11,900,000	\$11,900,000	2004
Peter Cintron Apartments	165	\$14,400,000	\$14,400,000	2004
<i>Multi-Family Rental Housing Revenue Bonds – Rental Projects; Letter of Credit Enhanced</i>				
Chelsea Centro	356	\$86,900,000	\$84,500,000	2002
<i>MBIA Insured Residential Revenue Refunding Bonds – Hospital Staff Housing</i>				
Royal Charter Properties East, Inc. Project	520	\$103,300,000	\$91,625,000	1998
<i>Residential Revenue Bonds – Hospital Staff Housing; Letter of Credit Enhanced</i>				
East 17 <sup>th</sup> Street Properties	236	\$36,600,000	\$30,900,000	1993
Montefiore Medical Center Project	116	\$8,400,000	\$8,200,000	1993
The Animal Medical Center	42	\$10,140,000	\$10,140,000	2003
<i>Mortgage Revenue Bonds – Cooperative Housing; SONYMA-Insured Mortgage Loan</i>				
Maple Court Cooperative	134	\$12,330,000	\$11,170,000	1994
Maple Plaza Cooperative	154	\$16,750,000	\$15,745,000	1996
<i>Multi-Family Mortgage Revenue Bonds – Rental Project; REMIC-Insured Mortgage Loan</i>				
Barclay Avenue Development	66	\$5,620,000	\$5,305,000	1996

<i>Multi-Family Mortgage Revenue Bonds – Senior Housing; Letter of Credit Enhanced</i>				
55 Pierrepont Development	189	\$6,100,000	\$5,400,000	2000
<b><u>MILITARY HOUSING REVENUE BONDS</u></b>				
Fort Hamilton Housing	228	\$47,545,000	\$47,545,000	2004
<b><u>HOUSING REVENUE BOND PROGRAM</u></b>				
<i>Multi-Family Housing Revenue Bonds**</i>	79,734	\$1,611,970,000	\$1,260,005,000	1993-2004
<b><u>LIBERTY BOND PROGRAM</u></b>				
<i>Multi-Family Mortgage Revenue Bonds</i>				
2 Gold Street	650	\$178,500,000	\$178,500,000	2003
63 Wall Street	476	\$143,800,000	\$143,800,000	2003
90 Washington Street	398	\$82,000,000	\$82,000,000	2003
90 West Street	410	\$106,500,000	\$106,500,000	2004
<b><u>SECTION 223(f) REFINANCING PROGRAM</u></b>				
<i>Multifamily Housing Limited Obligations Bonds; FHA-Insured Mortgage Loan</i>	5,252 22,225	\$79,998,100 \$299,886,700	\$64,515,727 \$157,894,807	1977 1978
<b>TOTAL</b>	<b>120,016</b>	<b>\$4,473,194,800</b>	<b>\$3,923,580,533</b>	

**II. MORTGAGE LOAN PROGRAMS.** The Corporation funds mortgage loans under various mortgage loan programs, including the significant programs described below. These mortgage loans are funded from bond proceeds and/or the corporation’s unrestricted reserves. See “Part I—Bond Programs” above.

A. *Affordable Housing Permanent Loan Program.* The Corporation has established a program to make permanent mortgage loans for projects constructed or rehabilitated, often in conjunction with The City of New York Department of Housing Preservation and Development (“HPD”) and other lender loan programs. All of the mortgage loans under this program have been financed by monies of the Corporation or proceeds of the 1997 Series C Bonds.

B. *Low-Income Affordable Marketplace Program.* The Low-income Affordable Marketplace Program (“LAMP”) finances the creation of predominately low-income housing using tax-exempt bonds and as of right 4% tax credits with 10% to 30% of the project reserved for formerly homeless households. LAMP allows the direct infusion of subsidy from the Corporation’s reserves. The funds are advanced during construction and remain in the project through the term of the permanent mortgage loan. During construction, the funds bear interest at 1%. While in the permanent phase, the funds must at least bear interest at 1%, but may provide for amortization, depending on the particular project.

C. *Mixed Income.* Under the Mixed-Income Program, HDC combines the use of credit enhanced variable rate, tax-exempt private activity bonds with subordinate loans funded from the Corporation’s reserves to finance mixed-income multi-family rental housing. Typically, the developments reserve 50% of the units for market rate tenants, 30% of the units for moderate to middle income tenants and 20% of the units for low income tenants.

\*\* Aggregate information for all forty-two (42) series of bonds that the Corporation has issued under its Housing Revenue Bond Program from 1993 through 2004 as described in Section B above.



D. New Housing Opportunities Program. The Corporation has established a New Housing Opportunities Program (“New HOP”) to make construction and permanent mortgage loans for developments intended to house low and moderate income tenants. The developments also receive subordinate loans from the Corporation. The first mortgage loans under New HOP have been, or are expected to be, financed by the proceeds of obligations issued under the Housing Revenue Bond Program. See “Section B—Housing Revenue Bond Program” in PART I—BOND PROGRAMS above.

**III. OTHER LOAN PROGRAMS.** In addition to funding mortgage loans, the corporation funds loans not secured by a mortgage under various programs, including the programs described below.

A. New Ventures Incentive Program. The Corporation participates in the New Ventures Incentive Program (“NewVIP”), a multi-million dollar public-private partnership between the City and member banks established in the fall of 2003. The NewVIP program is intended to provide up to \$40 million per year in loans for a period of up to five years for acquisition and pre-development costs to encourage residential development in derelict manufacturing areas which are appropriate for rezoning into residential use. The Corporation will (i) originate all NewVIP loans that are approved by the NewVIP loan committee; (ii) sell 100% participation to member banks with an absolute right to put the loans to the banks under the terms of the loan purchase and servicing agreement; and (iii) service the loans on behalf of the member banks. The Corporation will also assume the obligation to purchase any defaulted NewVIP loan up to \$8 million. The Corporation maintains an equal voting position on the NewVIP Loan Committee.

B. Other. Among other programs, The corporation has provided interest-free working capital loans to not-for-profit sponsors of projects through HPD’s Special Initiatives Program. The proceeds of such loans are used for rent-up expenses and initial operation costs of such projects. The Corporation also has provided interim assistance in the form of unsecured, interest-free loan to the Neighborhood Partnership Housing Development Fund Company, Inc. to fund certain expenses associated with HPD’s Neighborhood Entrepreneurs Program.

**IV. LOAN SERVICING.** The Corporation services the majority of its own loans and also services loans for others. Such loan servicing activities, which are described below, relate to approximately 1,280 mortgage loans with an approximate aggregate face amount of \$5.3 billion.

A. Portfolio Servicing. The Corporation acts as loan servicer in connection with the permanent mortgage loans made to approximately 540 developments under its bond, mortgage loan and other loan programs (including its Housing Revenue Bond Program) in the approximate aggregate face amount of \$1.5 billion.

B. HPD Loan Servicing. The Corporation acts as loan servicer in connection with certain construction and permanent housing loan programs of HPD pursuant to several agreements with HPD. As of July 31, 2004, the Corporation was servicing construction and permanent loans made to approximately 480 developments in the approximate aggregate face amount of \$1.7 billion.

C. Section 223(f) Loan Servicing. The Corporation acts as a loan servicer in connection with thirty-one (31) subordinate permanent mortgage loans, with an aggregate outstanding principal balance of approximately \$206 million as of July 31, 2004, held by U.S. Bank National Association as trustee for the NYC Mortgage Loan Trust. In the case of twenty-seven (27) of these mortgage loans, each such mortgage loan is subordinate to one of the FHA-insured mortgage loans which secure certain of the bonds issued by the Corporation under its Section 223(f) Refinancing Program described above in “Section D—Section 223(f) Refinancing Program” in PART I—BOND PROGRAMS.

D. Loan Servicing Monitoring. In addition to the Corporation’s loan servicing activities, the Corporation monitors the loan servicing activities of other servicers who service approximately 230 mortgage loans made under the Corporation’s various bond, mortgage loan and other loan programs in the approximate aggregate face amount of \$1.9 billion.

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**PROPOSED FORM OF BOND COUNSEL TO THE CORPORATION OPINION**

Upon delivery of the 2004 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, proposes to issue its approving opinion in substantially the following form:

NEW YORK CITY HOUSING  
DEVELOPMENT CORPORATION  
110 William Street  
New York, New York 10038

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$19,500,000 Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments), 2004 Series A (the “2004 Bonds”) of the New York City Housing Development Corporation (the “Corporation”), a corporate governmental agency, constituting a public benefit corporation created and existing under and pursuant to the New York City Housing Development Corporation Act, Article XII of the Private Housing Finance Law (Chapter 44-b of the Consolidated Laws of New York), as amended (the “Act”).

The 2004 Bonds are authorized to be issued pursuant to the Act and the Multi-Family Mortgage Revenue Bonds (Thessalonica Court Apartments) Bond Resolution of the Corporation, adopted December 9, 2004 (herein called the “Resolution”). The 2004 Bonds are being issued for the purpose of financing the Mortgage Loan (as defined in the Resolution).

The 2004 Bonds are dated, mature, are payable, bear interest and are subject to redemption and tender as provided in the Resolution.

The Corporation is authorized to issue other Bonds (as defined in the Resolution), in addition to the 2004 Bonds, for the purposes and upon the terms and conditions set forth in the Resolution, and such Bonds, when issued, shall, with the 2004 Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

We have not examined nor are we passing upon matters relating to the real and personal property referred to in the Mortgage, nor are we passing upon the Loan Agreement, the Mortgage, the other Mortgage documents or the Assignment (as such terms are defined in the Resolution). In rendering this opinion, we have assumed the validity and enforceability of the Loan Agreement, the Mortgage, the other Mortgage documents and the Assignment.

Upon the basis of the foregoing, we are of the opinion that:

(1) The Corporation has been duly created and validly exists as a corporate governmental agency constituting a public benefit corporation, under and pursuant to the laws of the State of New York (including the Act), and has good right and lawful authority, among other things, to finance the Mortgage Loan, to provide sufficient funds therefor by the adoption of the Resolution and the issuance and sale of the 2004 Bonds, and to perform its obligations under the terms and conditions of the Resolution, including financing the Mortgage Loan, as covenanted in the Resolution.

(2) The Resolution has been duly adopted by the Corporation, is in full force and effect, and is valid and binding upon the Corporation and enforceable in accordance with its terms.

(3) The 2004 Bonds have been duly authorized, sold and issued by the Corporation in accordance with the Resolution and the laws of the State of New York (the "State"), including the Act.

(4) The 2004 Bonds are valid and legally binding special revenue obligations of the Corporation payable solely from the revenues, funds or moneys pledged for the payment thereof pursuant to the Resolution, are enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

(5) The Bonds, including the 2004 Bonds, are secured by a pledge in the manner and to the extent set forth in the Resolution. The Resolution creates the valid pledge of and lien on the Revenues (as defined in the Resolution) and all the Accounts (other than the Rebate Fund) established by the Resolution and moneys and securities therein, which the Resolution purports to create, subject only to the provisions of the Resolution permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

(6) Pursuant to the Resolution, the Corporation has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to finance the Mortgage Loan, subject to the requirements of the Resolution with respect thereto.

(7) The 2004 Bonds are not a debt of the State or The City of New York and neither is liable thereon, nor shall the 2004 Bonds be payable out of any funds of the Corporation other than those of the Corporation pledged for the payment thereof.

(8) Under existing statutes and court decisions, (i) interest on the 2004 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"), except that no opinion is expressed as to such exclusion of interest on any 2004 Bond for any period during which such 2004 Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of the 2004 Bonds or a "related" person, and (ii) interest on the 2004 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation, the Mortgagor (as defined in the Resolution) and others, in connection with the 2004 Bonds, and we have assumed compliance by the Corporation and the Mortgagor with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2004 Bonds from gross income under Section 103 of the Code. In addition, under existing statutes, interest on the 2004 Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York).

We express no opinion regarding any other Federal or state tax consequences with respect to the 2004 Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and we 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 2004 Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2004 Bonds and the Resolution may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to the general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed 2004 Bond and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

**DESCRIPTION OF THE SECTION 8 PROGRAM**

General. The following is a brief description of the housing assistance payments program authorized by Section 8 of the United States Housing Act of 1937, as amended (the “1937 Housing Act”), which is qualified in its entirety by references to the applicable provisions of said Act and the regulations thereunder (the “Regulations”).

The Section 8 program is administered by HUD and authorizes subsidy payments to the owners of qualified housing for the benefit of lower income families (defined generally as families whose income does not exceed 80% of the median income for the area as determined by HUD) and very-low income families (defined generally as families whose income does not exceed 50% of the median income for the area as defined by HUD). Provision is made under the 1937 Housing Act and HUD regulations thereunder for administration of the Section 8 program through state or local housing finance agencies, as contract administrator (the “Contract Administrator”). Under this arrangement, the Contract Administrator agrees to pay the subsidy to or for the account of the mortgagor and concurrently contracts with HUD for payments of the subsidy by HUD to it. Pursuant to amendments to the 1937 Housing Act effected by the Housing and Community Development Amendments of 1981 (the “1981 Amendments”), not more than 25% of the dwelling units which were available for occupancy under Housing Assistance Payment Contracts (“HAP Contracts”) before the October 1, 1981 effective date of the 1981 Amendments and which are leased thereafter shall be available for leasing by lower income families other than very-low income families; and not more than 15% of the dwelling units which become available for occupancy under HAP Contracts after the effective date of the 1981 Amendments shall be available for leasing by lower income families other than very-low income families. Recent legislation also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission. The housing assistance payments generally represent the difference between the “contract rents” (plus estimated utility allowances, where utility costs are paid directly by tenants, and an administrative fee, hereinafter described, where applicable) for all eligible units in a development, as approved by HUD from time to time, and the eligible tenant’s contributions, which is generally 30% of such tenant’s income, as adjusted for family size, income and expenses, with certain adjustments, although each assisted family is generally required to pay a minimum rent of between \$25 and \$50 per month. The contract rents for a development are generally limited to the “fair market rents” established by HUD as reasonable in relation to rents for comparable units in the area.

Subsidy Contracts. The payment of subsidies under the Section 8 program is made pursuant to two contracts entered into with respect to each development assisted under such program: an annual contributions contract (the “ACC”) between HUD and the Contract Administrator, and the HAP Contract between the Contract Administrator and the owner. The ACC obligates the United States to provide funds to the Contract Administrator with which to make monthly housing assistance payments to the owner pursuant to a HAP Contract.

The ACC establishes the maximum annual amount of the housing assistance payments to be made by HUD for the account of the mortgagor of a development. This amount may not exceed the total of the initial contract rents and utility allowances for the eligible units in a development and any administrative fee. If the amount of housing assistance payments actually disbursed under an ACC in any given year is less than the total available amount, some or all of the excess (including an amount equal to the portion of the contract rents payable by the tenants) is required to be set aside by HUD in a “project account” for the particular development and will be available in future years to fund increases in contract rents for the development, decreases in family incomes or other costs authorized or approved by HUD. In the event that previously appropriated amounts are not sufficient to meet HUD’s contractual obligations to the Section 8 developments, HUD is required by applicable Section 8 provisions to take such additional steps authorized by subsection (c)(6) of Section 8 of the 1937 Housing Act as may be necessary to obtain funds to assure that payment will be adequate to cover increases in contract rents and decreases in tenant payments. Under subsection (c)(6) of Section 8: “[t]he Secretary [of HUD] shall take such steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in

maximum monthly rents or decreases in family incomes.” In practice, HUD has sought and received amendment authority from Congress sufficient to enable it to discharge its obligations under the HAP Contracts and the ACCs.

The HAP Contract provides for housing assistance payments with respect to a dwelling unit covered by the HAP Contract on the condition that such unit is maintained according to the requirements of the HAP Contract and is occupied by an eligible tenant. An ACC remains in effect for as long as a HAP Contract is in effect.

Amount and Payment of Subsidy. Section 8 subsidies available for debt service on the Bonds are based upon the contract rent applicable to specified dwelling units. The contract rent is initially based on the fair market rent for the dwelling unit, which is determined by HUD periodically with respect to each locality and published in the Federal Register. The proportion of the contract rent paid by HUD and that paid by tenants will vary generally depending upon tenant income.

Adjustment of Subsidy Amounts. Each HAP Contract provides for certain adjustments in contract rents. At least annually, HUD publishes an Annual Adjustment Factor (“AAF”), which is intended to reflect changes in the fair market rent established in the housing area for similar types and sizes of dwelling units; interim revisions may be made where market conditions warrant. Upon request from the owner to the Corporation, the AAF is applied on the anniversary date of each HAP Contract to contract rents, *provided* that no adjustment shall result in a material difference between the rents charged, for subsidized and comparable non-subsidized dwelling units except to the extent that the differences existed with respect to the contract rents set at HAP Contract execution or cost certification where applicable. (The difference that existed between the contract rent for a unit at HAP Contract execution and the rent on comparable unassisted units is generally referred to by HUD as the “initial difference” in contract rents.) In addition, provision is made in the regulations for special additional adjustments to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units which have resulted from substantial general increases in real property taxes, assessments, utility rates and utilities not covered by regulated rates, if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Under current law (Section 8(c)(2)(C) of the 1937 Housing Act), “[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under the section .... unless the project has been refinanced in a manner that reduces the periodic payments of the owner.”

Notwithstanding the foregoing, if the contract rents for a development exceed the applicable HUD fair market rents, then contract rents cannot be increased beyond comparable market rents (plus the initial difference) as determined by independent appraisals of at least three comparable local developments submitted by the owner. In addition, the AAFs for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date shall be one percentage point less than the AAFs that would otherwise apply.

If a HAP Contract has been renewed upon or subsequent to its expiration, the renewal contract will, in most cases, provide for annual adjustments in contract rents based upon an Operating Cost Adjustment Factor (OCAF). The OCAF is intended to reflect increases in the cost of operating comparable rental properties, which may or may not correspond to circumstances affecting a particular Section 8 Development. HAP Contracts renewed for terms longer than one year will be subject to Congressional appropriations, which may not be available. In addition, the prohibition on adjustments that would lower contract rents, explained further above, does not apply to HAP Contracts upon renewal following expiration.

Vacancies and Debt Service. Generally, the Section 8 subsidy is payable with respect to the dwelling unit only when it is occupied by a qualified person or family. However, applicable law and regulations provide for payment of the subsidy under certain circumstances and, for a limited period of time, when the dwelling unit is not occupied. Upon the occurrence of a vacancy in a dwelling unit, a subsidy amounting to 80% of the contract rent is payable for a vacancy period of 60 days subject to compliance by the mortgagor with certain conditions relating primarily to a diligent effort to rent the subsidized unit. The payment of a subsidy with respect to a dwelling unit vacant after initial rent-up may continue for an additional 12 months from the expiration of the 60-day period in an amount equal to the principal and interest payments required to amortize the debt service attributable to the vacant unit, if a good faith effort is being made to fill the unit and the unit provides decent, safe, and sanitary housing. Such continued payments also require the mortgagor to show that project costs exceed revenues, a good faith effort

is being made to fill the unit and the additional subsidy payments do not exceed the deficiency attributable to the vacant units.

Compliance With Subsidy Contracts. The ACC and the HAP Contract each contain numerous agreements on the part of the Contract Administrator and the owner concerning, among other things, maintenance of the development as decent, safe and sanitary housing and compliance with a number of requirements typical of Federal contracts (such as non-discrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which non-compliance by the owner may result in abatement by HUD or the Contract Administrator, as the case may be, of the payment of the Federal subsidy, in whole or in part.

Housing assistance payments will continue as long as the owner complies with the requirements of the HAP Contract and has leased the assisted units to an eligible tenant or satisfies the criteria for receiving assistance for vacant units. The Contract Administrator, which has primary responsibility for administering each HAP Contract subject to review and audit by HUD, subject to an opportunity by the mortgagor to cure any default under the HAP Contract, may abate housing assistance payments and recover overpayments pending remedy of the default. If the default is not cured, the Contract Administrator may terminate the HAP Contract or take other corrective action, in its discretion or as directed by HUD. HUD has an independent right to determine whether the owner is in default and to take corrective action and apply appropriate remedies.

If HUD determines that the Contract Administrator has failed to fulfill its obligations, HUD may, after notice to the Contract Administrator giving it a reasonable opportunity to take corrective action, require that the Contract Administrator assign to it all rights under the HAP Contract.

Expiration of Subsidy Contracts. In recent years there has been substantial concern among members of Congress and the Executive Branch, including HUD officials, about expiring subsidy contracts under the various programs operating pursuant to Section 8 of the 1937 Housing Act. A primary focus has been projects which have FHA-insured mortgages with terms ranging from 30 to 40 years and which have Section 8 HAP Contracts with substantially shorter terms.

The so-called Mark-to-Market program was established by the "Multifamily Assisted Housing Reform and Affordability Act of 1997" (as amended several times thereafter, the "1997 Act"). Under the Mark-to-Market program, many FHA-insured Section 8 projects with expiring HAP Contracts are eligible to receive continuing Section 8 assistance through contract renewals. Renewed contracts may have terms of from one to twenty years, subject to Congressional appropriations. As noted above, absent such appropriations, there is no assurance that funds will be available under these contracts. Additionally, FHA-insured Section 8 developments with expiring HAP Contracts and above-market rents may be eligible for restructuring plans and, upon restructuring, to receive continuing Section 8 assistance pursuant to contracts subject to Congressional appropriations. These restructuring plans may include partial or full prepayment of mortgage debt intended to reduce Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance, and in certain cases is designed to result in a change from "project-based" to "tenant-based" Section 8 payments. The 1997 Act provides, however, that no restructuring or renewal of HAP Contracts will occur if the owner of a project has engaged in material adverse financial or managerial actions with respect to that project or other Federally assisted projects, or if the poor condition of the project cannot be remedied in a cost effective manner.

The 1997 Act contained distinct mortgage restructuring and HAP Contract renewal and contract rent determination standards for Section 8 projects for which the primary financing or mortgage insurance was provided by a state or local government, or a unit or instrumentality of such government. Such projects are, under the 1997 Act, excluded from restructuring and instead are eligible for renewals at the lesser of (i) existing rents, adjusted by an operating cost adjustment factor established by HUD, (ii) a budget-based rent, or (iii) in the case of certain "moderate rehabilitation" Section 8 assistance contracts, the lesser of (x) existing rents, adjusted by an operating cost factor determined by HUD, (y) existing fair market rents (less any amounts allowed for tenant purchased utilities), or (z) comparable market rents for the market area. Under current HUD policy, existing fair market rents for moderate rehabilitation projects means 120% of HUD's published existing fair market rents.

Although initially exempt from restructuring, the 1999 amendments to the 1997 Act made Section 8 developments with FHA-insured mortgages for which the primary financing was provided by a unit of state or local

government subject to the Mark-to-Market program unless the implementation of a mortgage restructuring plan would be in conflict with applicable law or agreements governing such financing. The 1999 amendments also provide for a new program for preservation of Section 8 developments that allows increases in Section 8 rent levels for certain Section 8 developments (including Section 236 developments which also have project-based HAP Contracts) that have below market rents, to market-rate or near market-rate levels.





