NEW ISSUES—BOOK ENTRY ONLY

In the opinion of Bond Counsel, subject to continuing compliance with certain tax covenants, interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. However, see "Tax Exemption" for a description of the alternative minimum tax on corporations and certain other federal tax consequences of ownership of the Bonds. Bond Counsel is further of the opinion that the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

$274,785,000
PUERTO RICO MUNICIPAL FINANCE AGENCY

$222,860,000 1997 Series A Bonds
$51,925,000 1997 Series B Refunding Bonds

Dated: April 1, 1997 *Due: July 1, as shown on inside cover page*

The Bonds will be issued in fully registered form and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Bonds will be available to purchasers in denominations of $5,000 and any multiple thereof only under the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. ***Purchasers will not receive delivery of the Bonds. As long as any purchaser is the beneficial owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on such Bond.*** *See "THE BONDS—Book-Entry Only System." Interest on the Bonds will be payable on July 1, 1997 (representing 3 months' interest) and on each January 1 and July 1 thereafter. Certain of the Bonds are subject to redemption prior to maturity as set forth herein, the earliest possible date of redemption being July 1, 2007.*

The Series A Bonds are being issued to provide funds for the purchase by the Agency from Government Development Bank for Puerto Rico of general obligation municipal bonds and notes of various municipalities within the Commonwealth of Puerto Rico. The Series B Refunding Bonds are being issued to provide funds with other available moneys to be used for the purpose of defeasing all of the outstanding Puerto Rico Municipal Finance Agency 1988 Series A Bonds (the "1988 Series A Bonds") the proceeds of which provided for the purchase of other general obligation municipal bonds and notes. A deposit will also be made to the Reserve Account from the proceeds of the Bonds and other moneys available under the trust indenture for the 1988 Series A Bonds after their defeasance. The Bonds will be secured by and payable from the payments of principal of and interest on the general obligation municipal bonds and notes of various municipalities of the Commonwealth that are being pledged by the Agency (including the outstanding general obligation municipal bonds and notes initially purchased in respect of the 1988 Series A Bonds) and from moneys in the Reserve Account as set forth herein.

The Agency's Enabling Act provides that, in order to assure the maintenance of the Reserve Account in the required amount, there shall be annually apportioned and paid to the Agency by the Commonwealth, from any available or uncommitted funds, for deposit in the Reserve Account such sum, if any, as shall be certified by the President of the Agency to the Secretary of the Treasury of the Commonwealth as necessary to restore the Reserve Account to the required amount. If there are no such available or uncommitted funds, the Secretary of the Treasury shall request the amount so certified from the Director of the Office of Management and Budget, who shall proceed to include it in General Budget of the Commonwealth for the coming fiscal year. The payment of such amount is subject to appropriation by the Legislature, which appropriation is authorized but not legally required to be made.

NEITHER THE CREDIT OF THE COMMONWEALTH OF PUERTO RICO NOR THAT OF ANY OF ITS POLITICAL SUBDIVISIONS OR INSTRUMENTALITIES WILL BE PLEDGED FOR THE PAYMENT OF THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM PRINCIPAL AND INTEREST PAYMENTS UNDER THE PLEDGED GENERAL OBLIGATION MUNICIPAL BONDS AND NOTES AND FROM MONEYS HELD IN THE RESERVE ACCOUNT AND OTHER FUNDS AND ACCOUNTS UNDER THE TRUST INDENTURE. THE GOOD FAITH, CREDIT AND UNLIMITED TAXING POWER OF EACH ISSUING MUNICIPALITY WILL BE PLEDGED TO THE PAYMENT OF ITS GENERAL OBLIGATION MUNICIPAL BONDS AND NOTES THAT ARE BEING PLEDGED BY THE AGENCY TO SECURE PAYMENT OF THE BONDS.

The inside cover page contains information respecting the maturity schedules, interest rates, yield and bond insurance for the Bonds.

The Bonds are offered when, as and if delivered to and accepted by the Underwriters, subject to the approval of legality by Brown & Wood LLP, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, McConnell Valdés, San Juan, Puerto Rico. It is expected that settlement for the Bonds will occur in New York, New York on or about May 8, 1997.

MORGAN STANLEY & CO. Incorporated	*LEHMAN BROTHERS*	*SMITH BARNEY INC.*
BEAR, STEARNS & CO. INC.	*CITICORP SECURITIES, INC.*	*CLARK MELVIN SECURITIES CORPORATION*
GOLDMAN, SACHS & CO.	*MERRILL LYNCH & CO.*	*ORIENTAL FINANCIAL SERVICES CORP.*
PAINEWEBBER INCORPORATED	*PRUDENTIAL SECURITIES INCORPORATED*	*DEAN WITTER REYNOLDS, INC.*

April 10, 1997

$274,785,000
PUERTO RICO MUNICIPAL FINANCE AGENCY

AMOUNTS, MATURITIES, INTEREST RATES AND YIELDS

$222,860,000 1997 Series A Bonds

Amount	Maturity	Interest Rate	Yield	Amount	Maturity	Interest Rate	Yield
$9,560,000	1997	4½%	3.90%	$9,655,000*	2005	6 %	5.125%
11,135,000	1998	4½	4.30	10,605,000*	2006	6	5.20
12,285,000*	1999	5	4.45	11,250,000*	2007	6	5.25
9,515,000*	2000	5½	4.60	2,200,000*	2008	5	5.32
6,720,000*	2001	5½	4.65	12,015,000*	2009	5	5.40
7,595,000*	2002	5½	4.70	12,420,000*	2010	5¼	5.50
8,260,000*	2003	5½	4.90	13,360,000*	2011	6	5.43
8,830,000*	2004	5½	5.00	10,950,000*	2012	6	5.48

$45,375,000* 5½% Term Bonds due July 1, 2017—Yield 5.78%

$21,130,000* 5½% Term Bonds due July 1, 2021—Yield 5.83%

(plus accrued interest)

$51,925,000 1997 Series B Refunding Bonds

Amount	Maturity	Interest Rate	Yield	Amount	Maturity	Interest Rate	Yield
$5,625,000	1997	4½%	3.90%	$3,445,000*	2003	5½%	4.90 %
5,190,000	1998	4½	4.30	2,330,000*	2004	5½	5.00
4,955,000	1999	5	4.78	2,475,000*	2005	6	5.125
5,140,000*	2000	5½	4.60	2,620,000*	2006	6	5.20
5,360,000*	2001	5½	4.65	255,000*	2007	6	5.25
5,135,000*	2002	5½	4.70	9,395,000*	2008	5	5.32

(plus accrued interest)

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* The scheduled payment of principal of and interest on the 1997 Series A Bonds maturing on July 1 of the years 1999 through 2021 and on the 1997 Series B Refunding Bonds maturing on July 1 of the years 2000 through 2008 when due in each case will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 1997 Series A Bonds and the 1997 Series B Refunding Bonds by Financial Security Assurance Inc.

No dealer, broker, sales representative or other person has been authorized by the Agency or the Underwriters to give any information or make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Agency or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and the Commonwealth and includes information obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. The information and expressions of opinion contained 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 Agency or the Commonwealth since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$274,785,000
Puerto Rico Municipal Finance Agency
$222,860,000 1997 Series A Bonds
$51,925,000 1997 Series B Refunding Bonds

INTRODUCTORY STATEMENT

This Official Statement of Puerto Rico Municipal Finance Agency (the "Agency") is provided to furnish information with respect to its $222,860,000 Puerto Rico Municipal Finance Agency 1997 Series A Bonds (the "Series A Bonds") and $51,925,000 Puerto Rico Municipal Finance Agency 1997 Series B Refunding Bonds (the "Series B Refunding Bonds" and, together with the Series A Bonds, the "Bonds"). The Bonds will be issued pursuant to a Trust Indenture, dated as of April 1, 1997 (the "Indenture"), between the Agency and Banco Santander Puerto Rico, as trustee (the "Trustee"). The Series A Bonds maturing on or after July 1, 1999 and the Series B Refunding Bonds maturing on or after July 1, 2000 (collectively, the "Insured Bonds") will be guaranteed as to scheduled payments of principal and interest by a Municipal Bond Insurance Policy (the "Policy") to be issued by Financial Security Assurance Inc. ("Financial Security" or the "Insurer").

This Official Statement includes the cover page, the inside cover page, the Appendices and the following documents, which have been filed by the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") with each nationally recognized municipal securities information repository ("NRMSIR") and the Municipal Securities Rulemaking Board (the "MSRB") and are incorporated herein by reference:

(1) Appendix I to the Official Statement of the Commonwealth, dated March 13, 1997, relating to the sale of $326,845,000 Commonwealth of Puerto Rico Public Improvement Refunding Bonds, Series 1997 (the "Refunding Bonds") and $369,000,000 Commonwealth of Puerto Rico Public Improvement Bonds of 1997 (the "Public Improvement Bonds"), which contains financial and other information of the Commonwealth (the "*Commonwealth Appendix*"); and

(2) the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 1996 prepared by the Department of the Treasury (the "Commonwealth's Annual Financial Report"), which includes the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 1996, together with the independent auditor's report thereon, dated December 17, 1996, of Deloitte & Touche LLP, San Juan, Puerto Rico, certified public accountants.

Any Appendix I of an Official Statement of the Commonwealth or any appendix of an Official Statement of any instrumentality of the Commonwealth containing the same information as the Commonwealth Appendix, filed with each NRMSIR and the MSRB after the date hereof and prior to the termination of any offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

For a discussion of recent developments relating to the information appearing in the *Commonwealth Appendix*, see "RECENT DEVELOPMENTS" herein.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference. Requests for such documents should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 140 Broadway, 38th Floor, New York, New York 10005, telephone number (212) 422-6420, or to Director-Muncipal Financing Department, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940-2001, telephone number (787) 721-3316.

A copy of the *Commonwealth Appendix* and the Commonwealth's Annual Financial Report may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in "CONTINUING DISCLOSURE" below. The address of the MSRB is 1640 King Street, Suite 300, Alexandria, VA 22314, telephone number (202) 223-9503.

THE AGENCY

The Agency, a public corporation and governmental instrumentality of the Commonwealth, was created by Act No. 29 of the Legislature of Puerto Rico, approved June 30, 1972, as amended (the "Enabling Act"), to allow the municipalities of the Commonwealth to access the capital market so that such municipalities might finance more effectively their public improvement programs.

The Agency is authorized to issue bonds for the following purposes: (i) purchasing bonds and notes of municipalities within the Commonwealth secured by ad valorem taxation, without limitation of rate or amount, on all taxable property within each such municipality and issued in accordance with applicable law, (ii) making payments into the Bond Service Account, the Operating Fund or the Reserve Account (as described herein), (iii) funding bond anticipation notes theretofore issued by the Agency to provide funds to purchase municipal bonds and notes, and (iv) refunding any outstanding bonds of the Agency.

The Agency is located in the Minillas Government Center in San Juan, Puerto Rico. Its mailing address is P.O. Box 42001, San Juan, Puerto Rico 00940-2001, telephone (787) 722-2525.

Organization and Membership of the Agency

The Agency is governed by a Board of Directors composed of the Commissioner of Municipal Affairs, the President of Government Development Bank for Puerto Rico ("GDB"), an instrumentality and public corporation of the Commonwealth, and three additional members appointed by the Governor of the Commonwealth, one of whom shall be either the mayor or chief financial officer of a municipality. The Commissioner of Municipal Affairs, the President of GDB, and the municipal officer appointed by the Governor of the Commonwealth shall be members of the Board during the period of their respective incumbencies. The other two members shall be appointed for a period of five years. The President of GDB serves as the Chairman of the Board and President of the Agency.

The Board currently consists of the following members:

Member	Occupation
Marcos Rodríguez-Ema, Esq., *Chairman of the Board and President*	President of GDB
José Otero García	Commissioner of Municipal Affairs
Honorable Ferdín Carrasquillo Ayala	Mayor, Municipality of Loíza
Roque Otero Cortés	Businessman
José Dapena Thompson, Esq.	Lawyer

Prior Bond Issues

As of January 1, 1997, the Agency had outstanding $44,089,219 1988 Series A Bonds, $131,730,000 1992 Series A Bonds and $240,625,000 1994 Series A Bonds (collectively, the "Outstanding Bonds"). The Outstanding Bonds were authorized and issued pursuant to trust indentures separate from and unrelated to the Indenture and are secured by municipal bonds and notes other than those to be pledged to secure payment of the Bonds. Simultaneously with the issuance of the Bonds, all of the outstanding 1988 Series A Bonds will be defeased with part of the proceeds of the Series B Refunding Bonds and other available moneys. Upon the defeasance of the 1988 Series A Bonds, the Series B Municipal Bonds (as defined herein) held by the trustee under the trust indenture for the 1988 Series A Bonds

(the "1988 Trust Indenture") will be released and, in turn, will be pledged by the Agency under the Indenture to the Trustee as security for the Bonds.

PLAN OF FINANCING

The Series A Bonds

The portion of the proceeds of the Series A Bonds deposited to the credit of the Acquisition Fund will be used by the Trustee to purchase from GDB the general obligation municipal bonds and notes of various municipalities within the Commonwealth (the "Series A Municipal Bonds"). See "SOURCES OF PAYMENT FOR THE BONDS- The Municipal Bonds" and "THE INDENTURE-Acquisition Fund."

The Series B Refunding Bonds

A portion of the proceeds of the Series B Refunding Bonds will be used, together with other available moneys, for the purpose of defeasing the remaining $44,089,219 aggregate principal amount of the Agency's outstanding 1988 Series A Bonds (the "Refunded Bonds"). The proceeds of the Series B Refunding Bonds to be used for such purpose shall be transferred to and held by the trustee (the "1988 Trustee") under the 1988 Trust Indenture in a special escrow fund, appropriately designated, for the sole and exclusive purpose of paying the principal of and redemption premium, if any, and interest on the Refunded Bonds (the "Escrow Fund"). See "THE INDENTURE-Escrow Fund."

All of the Refunded Bonds will be paid at their respective maturities, serial bonds maturing on July 1, 1997 and capital appreciation bonds maturing on July 1, 1998, 1999 and 2000, with the exception of $31,710,000 principal amount of the Refunded Bonds, maturing July 1, 2008, which will be called for redemption on July 1, 1998 at a redemption price of 102% of the principal amount thereof.

Upon the deposit of a portion of the proceeds of the Series B Refunding Bonds and other available moneys in the Escrow Fund, all of the outstanding 1988 Series A Bonds will be defeased. Such proceeds and other available moneys will be invested in direct, non-callable and non-prepayable obligations of the United States (or obligations unconditionally guaranteed by the United States), the principal of and interest on which, with any remaining moneys not so invested, will be sufficient to pay the principal of and premium, if any, on the Refunded Bonds at their respective maturities and redemption date, and to pay interest on the Refunded Bonds as such interest becomes due. The sufficiency of the amounts so deposited, and investment earnings thereon, to pay the principal of and premium, if any, and interest on the Refunded Bonds as such principal and interest become due, will be verified by Deloitte & Touche LLP, verification agent.

Upon such defeasance of all of the outstanding 1988 Series A Bonds, the outstanding municipal bonds and notes held by the 1988 Trustee as security for the 1988 Series A Bonds will be released and, in turn, will be pledged by the Agency under the Indenture to the Trustee as additional security for the Bonds (the "Series B Municipal Bonds" and, together with the Series A Municipal Bonds, the "Municipal Bonds", and the municipalities issuing the Municipal Bonds herein called collectively the "Municipal Issuers").

Sources and Uses of Funds

Sources:

Principal amount of Series A Bonds	$222,860,000
Principal amount of Series B Refunding Bonds	51,925,000
Net original issue premium	2,155,176
Transfer of moneys from the 1988 Trust Indenture	11,804,890
Total Sources	$288,745,066

Uses:

Deposit to the Acquisition Fund	$207,476,000
Deposit to the Escrow Fund	53,957,964
Deposit to the Reserve Account	22,291,921
Underwriting discount, municipal bond insurance premium and legal, printing and financing expenses	5,019,181
Total Uses	$288,745,066

The amount deposited to the credit of the Reserve Account from the proceeds of the Bonds and from moneys available under the 1988 Trust Indenture will be equal to the Required Debt Service Reserve (as defined herein). See "SOURCES OF PAYMENT FOR THE BONDS-The Reserve Account."

THE BONDS

General

The Bonds will be dated April 1, 1997. Interest on the Bonds (at the respective rates set forth on the inside cover page of this Official Statement) will be payable on July 1, 1997 (representing 3 months' interest) and on each January 1 and July 1 thereafter. The Bonds are subject to redemption at the times and at the prices set forth in "Redemption" below.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC"), New York, New York and DTC's book-entry system has been obtained from DTC, and neither the Agency nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond will be issued for each maturity and series of the Bonds in the aggregate principal amount of such maturity 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 (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the

"Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each purchaser of a Bond (a "Beneficial Owner") is in turn to be recorded in the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases, 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 Bonds will be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive definitive Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may not be the Beneficial Owners. The 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.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds of a maturity and series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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 Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

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

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive Bonds will also be printed and delivered.

Payments and Transfers

No assurance can be given by the Agency and the Trustee that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Agency and the Trustee are not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

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

Discontinuance of the Book-Entry Only System

In the event that such book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the corporate trust office of the Trustee in San Juan, Puerto Rico. Interest on the Bonds will be payable by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Agency maintained by the Trustee as of the record date therefor (June 15 and December 15). The Bonds will be issued only as registered Bonds without coupons in denominations of $5,000 or any multiple thereof. The transfer of the Bonds will be registrable and they may be exchanged at the corporate trust office of the Trustee in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Redemption

Optional Redemption. The Bonds maturing after July 1, 2007, except the Series A Bonds maturing on July 1, 2011 and 2012 which are not subject to redemption, may be redeemed at the option of the Agency, upon not less than 30 days' prior notice by mail to DTC or, if the book-entry system is discontinued, to the registered owners thereof from any available moneys (other than moneys deposited in the Sinking Fund in respect of an amortization requirement) either in whole or in part, as directed by the Agency, on any date not earlier than July 1, 2007, at the following prices (expressed in percentages of the principal amount) plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
July 1, 2007 through June 30, 2008	101½%
July 1, 2008 through June 30, 2009	100¾
July 1, 2009 and thereafter	100

Mandatory Redemption. The term Series A Bonds maturing July 1, 2017 and 2021 are subject to redemption to the extent of the respective amortization requirements therefor set forth below (less the amount applied to the purchase of any such Bonds and otherwise subject to adjustment as described below), upon not less than 30 days' prior notice by mail to DTC or, if the book-entry system is discontinued, to the registered owners thereof on July 1, 2013 and 2018, respectively, and on July 1 in each year thereafter from moneys in the Redemption Account at a redemption price of par plus accrued interest to the date fixed for redemption:

July 1,	Amortization Requirements for Term Series A Bonds due July 1, 2017	Amortization Requirements for Term Series A Bonds due July 1, 2021
2013	$10,895,000	
2014	11,575,000	
2015	9,965,000	
2016	6,680,000	
2017	6,260,000*	
2018		$ 6,395,000
2019		6,875,000
2020		5,375,000
2021		2,485,000*
Total	$45,375,000	$21,130,000
Average life (years)	17.84	22.33

* Maturity.

If the amount of the term Series A Bonds of a particular maturity retired by purchase or redemption during any fiscal year exceeds the amount of the amortization requirement for such term Series A Bonds for such fiscal year, the amortization requirements for such term Series A Bonds shall be decreased for such subsequent fiscal years and in such amounts aggregating the amount of such excess as the Agency shall determine.

Effect of Calling for Redemption. On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Indenture, the Bonds or portions of Bonds so called for redemption will become and be due and payable at the redemption price of such Bonds or portions thereof to be redeemed on such date, and, if moneys, or Government Obligations (as defined herein) the principal of and interest on which when due will provide sufficient moneys, for payment of the redemption price are held in separate accounts by the Trustee in trust for the holders of the Bonds or portions thereof to be redeemed, as provided in the Indenture, interest on the Bonds or portions thereof so called for redemption will cease to accrue, such Bonds or portions thereof will cease to be entitled to any benefit or security under the Indenture, and the registered owners of such Bonds or portions thereof will have no rights in respect thereof except to receive payment of the redemption price thereof and the accrued interest and, to the extent provided in the Indenture, to receive Bonds of the same series and maturity for any unredeemed portions of the Bonds.

Additional Bonds

No additional bonds may be issued under the Indenture except to refund any bonds issued under the Indenture (including the Bonds). All such refunding bonds will be issued on a parity with the Bonds and will be entitled to the same benefit and security under the Indenture as the Bonds. If less than all the Bonds are being so refunded, the prior consent of the Insurer shall be required. In addition, the Agency may from time to time issue additional bonds and notes as authorized under the Enabling Act, which bonds and notes would be authorized and issued pursuant to trust indentures or authorizing resolutions separate from and unrelated to the Indenture and would be secured by general obligation municipal bonds and notes other than those to be pledged to secure payment of the Bonds or any such refunding bonds.

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Financial Security will issue the Policy for the Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix B to this Official Statement.

THE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

THE INSURER

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange listed company whose major shareholders include Fund American Enterprises Holdings, Inc., The Tokio Marine and Fire Insurance Co., Ltd. and U S WEST Capital Corporation. The shareholders of Holdings are not liable for the obligations of Financial Security.

At December 31, 1996, Financial Security's total policyholders' surplus and contingency reserves were approximately $675,944,000 and its total unearned premium reserve was approximately $411,732,000 in accordance with statutory accounting principles. At December 31, 1996, Financial Security's total shareholders' equity was approximately $815,332,000 and its total net unearned premium reserve was approximately $359,972,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds.

Copies of such materials incorporated by reference will be provided upon request to Financial Security: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service (as defined herein), and "AAA" by Standard & Poor's Ratings Service (as defined herein). Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption and in the footnote on the inside cover page hereof for inclusion in the Official Statement.

SOURCES OF PAYMENT FOR THE BONDS

The Bonds and any refunding bonds issued under the Indenture are equally and ratably secured by and payable from (i) payments of principal of and interest on the Municipal Bonds held by the Trustee (see "The Municipal Bonds" below) and (ii) moneys in and investment income from the Reserve Account (including any moneys paid to the Agency by the Commonwealth) (see "The Reserve Account" below) and the Acquisition Fund (see "THE INDENTURE-Acquisition Fund").

The Trustee is required to collect the principal of and interest on all Municipal Bonds held by it on behalf of the Agency as such principal and interest become due and payable and deposit the moneys so received to the credit of the following Accounts within the Sinking Fund (as defined herein) and to the Operating Fund (as defined herein) created under the Indenture in the following order:

(a) the Bond Service Account, such amount as may be required to make the total amount then in the Bond Service Account equal to the amount of interest then or to become within the next ensuing six months due and payable on all Bonds and any refunding bonds then outstanding and the amount of principal then or to become within the next ensuing twelve months due and payable on all serial Bonds and serial refunding bonds then outstanding plus such additional amount, if any, of any surplus cash flow from the Municipal Bonds as may be specified in a certificate of the Agency filed with the Trustee upon the issuance of the Bonds or any such refunding bonds necessary, together with future amounts to be received on the Municipal Bonds, to provide for future interest on the Bonds and any refunding bonds and future principal on the serial Bonds or any serial refunding bonds as so specified by the Agency;

(b) the Redemption Account, such amount as may be required to make the amount deposited in the Redemption Account in such fiscal year equal to the Amortization Requirements, if any, for such fiscal year for the term Bonds and term refunding bonds then outstanding plus such additional amount, if any, of any surplus cash flow from the Municipal Bonds as may be specified in a certificate of the Agency filed with the Trustee upon the issuance of the Bonds or any refunding bonds necessary, together with future amounts to be received on the Municipal Bonds, to equal any future Amortization Requirements for the term Bonds or any refunding term bonds as so specified by the Agency;

(c) the Reserve Account, such amount as may be required to make the amount then in the Reserve Account equal to the Required Debt Service Reserve; and

(d) the Operating Fund.

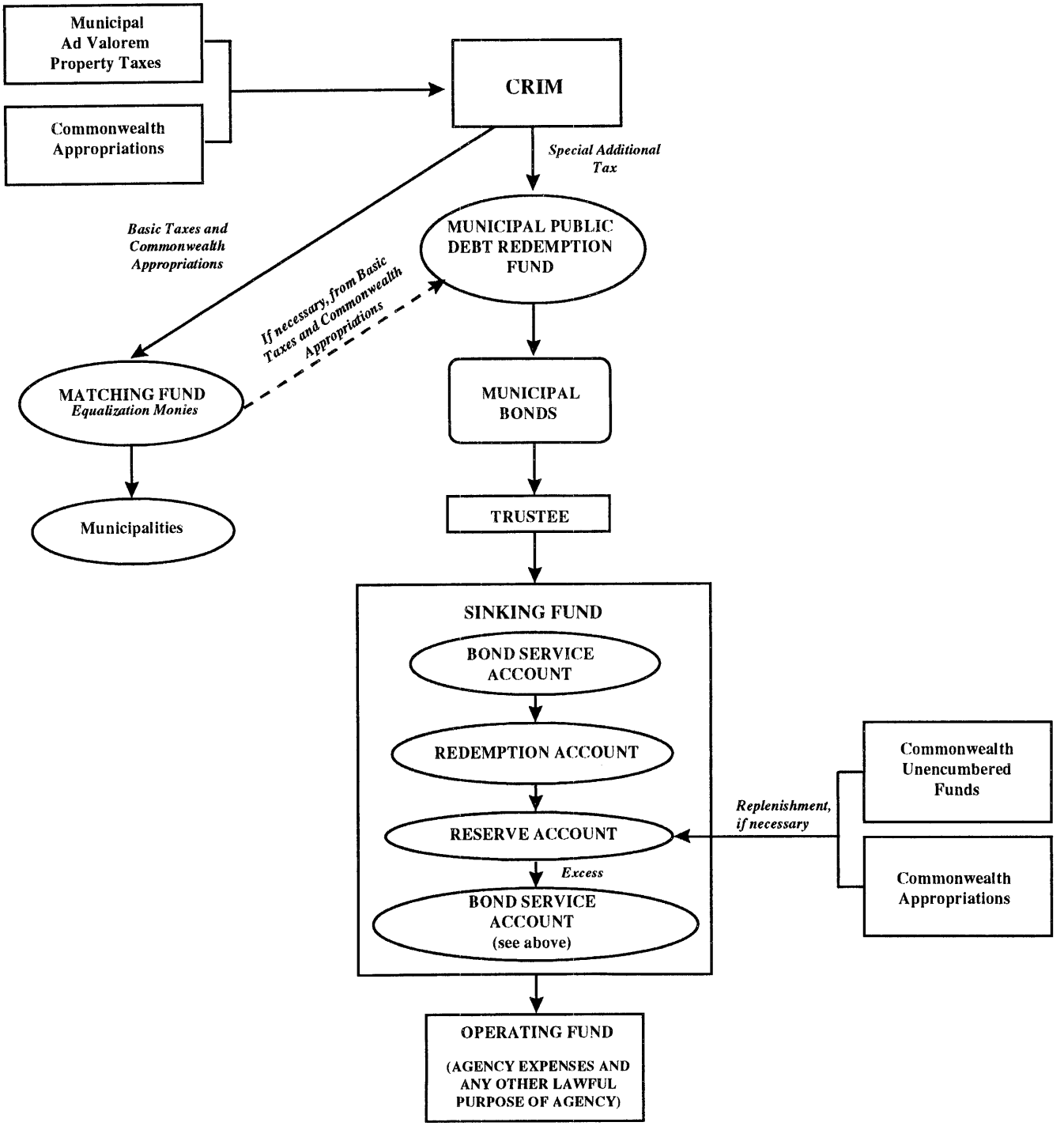
Any amounts in the Reserve Account in excess of the Required Debt Service Reserve shall be transferred to the Bond Service Account.

All moneys paid to the Agency by the Commonwealth pursuant to the Enabling Act for the purpose of restoring the Reserve Account to the Required Debt Service Reserve are to be paid to the Trustee for deposit to the credit of the Reserve Account.

Neither the credit of the Commonwealth nor that of any of its political subdivisions or instrumentalities will be pledged for the payment of the Bonds. The Bonds are limited obligations of the Agency payable solely from principal and interest payments under the pledged Municipal Bonds and from moneys held in the Reserve Account and other funds and accounts under the Indenture. The good faith, credit and unlimited taxing power of each Municipal Issuer will, however, be pledged to the payment of each of its Municipal Bonds that is being pledged by the Agency to secure payment of the Bonds and any refunding bonds issued under the Indenture.

The following diagram demonstrates the sources of payments for the Municipal Bonds of each Municipal Issuer and how payments on the Municipal Bonds and moneys from other sources (described below) are allocated to the above-mentioned funds and accounts.

Combined Sources of Payments



The Municipal Bonds

General. As required by the Indenture and the Enabling Act, the Municipal Bonds are bonds or notes of a Municipal Issuer secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the municipality. The good faith, credit and unlimited taxing power of each Municipal Issuer are pledged to the payment of its Municipal Bonds. The Municipal Bonds have been issued pursuant to Act No. 64 of the Legislature of Puerto Rico, approved July 3, 1996, as amended ("Act No. 64"), or its predecessor statute, Act No. 7 of the Legislature of Puerto Rico, approved October 28, 1954, as amended ("Act No. 7"). Act No. 64 incorporated into a single statute the provisions of Act No. 7 and of several other laws relating to municipal finance and municipal taxes and made certain changes to such provisions to, among other things, expedite the procedures for the issuance of municipal obligations, including general obligation municipal bonds and notes.

As provided by the Commonwealth Constitution, the Legislature of Puerto Rico has fixed the limitation for the issuance of general obligation municipal bonds or notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged to a maximum of 10% of the aggregate assessed valuation of the property within such municipality. Act No. 64 provides that in calculating the amount of general obligation bonds or notes that may be issued at any time by a municipality, the amount of outstanding general obligation bonds and notes of such municipality is reduced by the amount of the excess, if any, of the funds deposited in such municipality's Redemption Fund (as defined herein) with GDB over the amount of debt service on such general obligation debt for the next twelve months plus a contingency amount necessary to cover projected shortfalls in future annual revenues from the Special Additional Tax (as defined below) based on current tax rates. For a discussion of the operation of the Redemption Fund see "Redemption Fund Deposits and Application" below.

Municipal Revenues. Revenues of the municipalities of the Commonwealth are principally derived from ad valorem property taxes and Commonwealth appropriations. Act No. 83 of August 30, 1991 ("Act No. 83") authorizes the imposition of the following municipal property taxes: (i) a special additional property tax (the "Special Additional Tax"), without limitation as to rate or amount, in such amounts as shall be required for the payment of debt service on such municipality's general obligation bonds and notes, which Special Additional Tax is available exclusively for the payment of such debt service; (ii) a basic property tax to fund operating expenses up to a maximum amount of 6% of the assessed valuation on all real property within such municipality and up to a maximum amount of 4% of the assessed valuation on all personal property within such municipality (collectively, the "Basic Tax"); and (iii) a special property tax imposed by the Commonwealth Legislature of 1.03% of the assessed valuation of all real and personal property within the Commonwealth (other than exempted property) (the "Special Tax") for the exclusive purpose of servicing the Commonwealth's general obligation debt. A portion of the Basic Tax levied by a municipality may be transferred to other municipalities by virtue of the operation of the Matching Fund. See "Matching Fund and Equalization Moneys" below.

The current Special Additional Tax rates for municipalities vary from 0.40% to 1.50% in the case of both real and personal property. The current Basic Tax rates for municipalities vary from 4.72% to 6.00%, in the case of real property, and from 2.72% to 4.00%, in the case of personal property. In the aggregate, current property tax rates (including the Special Additional Tax and the Basic Tax) for the municipalities vary from 5.41% to 7.50%, in the case of real property, and from 3.21% to 5.50%, in the case of personal property. Interest is charged on delinquent taxes at the rate of 10%, with a penalty of up to 10% in the case of real property and up to 15% (or up to 40% if the delinquency also involves failure to file the required tax return) in the case of personal property (in both cases the penalty is on the principal amount of the delinquent taxes).

Under Acts No. 7 and No. 64, each municipality is required to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. Principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds constitute a first lien on the municipality's Basic Tax. Accordingly, the municipality's Basic Tax would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax, together with moneys on deposit in the municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation municipal bonds and notes.

Act No. 83 and Act No. 80, approved by the Legislature of Puerto Rico on August 30, 1991, as amended ("Act No. 80"), also provide for the following Commonwealth appropriations to the municipalities: (i) 2.02% of the net internal revenues of the Commonwealth's General Fund; (ii) 35% of the annual net revenues derived from the operation of the additional lottery system created by Act No. 10, approved by the Legislature of Puerto Rico, on May 24, 1989, as amended (the amounts in clauses (i) and (ii), the "Designated Commonwealth Contributions"); (iii) an annual amount from the Commonwealth's General Fund to compensate the municipalities for the exemption from the Special Additional Tax and Basic Tax on the first $15,000 of assessed valuation of primary personal residences of individuals (the "$15,000 Exemption"); and (iv) an annual amount from the Commonwealth's General Fund to compensate the municipalities for the exemption of 0.20% of the assessed valuation of all taxable property within the municipalities (the amounts in clauses (i) through (iv), with the exception of the annual appropriations from the Commonwealth with respect to the compensation to the municipalities for the Special Additional Tax portion of the $15,000 Exemption, the "Commonwealth Appropriations").

Act No. 83 provides for the $15,000 Exemption and an exemption from personal property taxes on the first $50,000 of assessed valuation of property owned by businesses that have gross revenues of less than $150,000 per annum. Recognizing the importance of the real and personal property tax for the fiscal requirements of the municipalities, the Commonwealth makes annual appropriations to the municipalities from the General Fund as compensation for the amount of the revenues foregone owing to these exemptions. However, under Act No. 83 appropriations from the Commonwealth will not be provided to cover any amount of property taxes which any municipality elects to forgive for primary personal residences and personal property of certain businesses registered for the first time after January 1, 1992.

The municipal revenues described above are collected or received by the Municipal Revenues Collection Center ("CRIM"), an independent municipal entity, on behalf of the levying municipality and are deposited by CRIM into the Redemption Fund and the Matching Fund (as defined herein), with the exception of the Special Tax which is deposited into the Commonwealth's debt redemption fund.

Redemption Fund Deposits and Application. CRIM is required to deposit into each municipality's redemption fund with GDB for the payment of such municipality's general obligation bonds and notes (the "Redemption Fund"), the amounts collected with respect to such municipality's Special Additional Tax (including the annual appropriations from the Commonwealth's General Fund to compensate each municipality for the Special Additional Tax portion of the $15,000 Exemption) and any additional amount derived from such municipality's Basic Tax and other available revenues to the extent necessary to pay principal of and interest on all general obligation indebtedness of such municipality. It has never been necessary to transfer into any municipality's Redemption Fund moneys derived from such municipality's Basic Tax.

Act No. 64 provides that the Special Additional Tax and other amounts deposited in a municipality's Redemption Fund are to be used exclusively to pay the principal of and premium, if any, and interest on its general obligation bonds and notes (except that interest earnings on Redemption Fund balances are remitted to such municipality quarterly). This was the general practice followed by GDB under Act No. 7 prior to the enactment of Act No. 64.

In May 1996, the Puerto Rico Supreme Court ruled in a lawsuit filed by the Municipality of San Juan that GDB had the obligation under Act No. 7 to return to San Juan funds held in such municipality's Redemption Fund to the extent that such funds exceeded the amount necessary to cover twelve months' debt service on such municipality's then outstanding general obligation indebtedness and future deficiencies in Special Additional Tax collections based on current tax rates, and that such "excess" could be used by San Juan to pay operating expenses. As a result of such decision, GDB returned approximately $21.5 million to San Juan from its Redemption Fund. In addition, San Juan has claimed that it is entitled to receive any portion of its Special Additional Tax corresponding to the fiscal year 1995-1996 that may be collected by CRIM and deposited in San Juan's Redemption Fund in subsequent fiscal years to the extent that, after such deposit, its Redemption Fund has an "excess." Such claim has not been resolved by the lower court.

Based on the Puerto Rico Supreme Court's decision, four other municipalities asked GDB prior to enactment of Act No. 64 to return to them "excess" funds, if any, in their respective Redemption Funds. Three of these

municipalities had an "excess" in their respective Redemption Funds, and one of these municipalities, after consultation with GDB, has agreed to maintain its "excess" deposited in its Redemption Fund. In the case of the other two municipalities that had an "excess," GDB may be required to return a total of approximately $2.5 million. In addition, six other municipalities have asked GDB, after the enactment of Act No. 64, to return their "excess" funds, if any, in their respective Redemption Funds, of which only two had "excess" funds. Given the exclusive use of such money to pay debt service on general obligation municipal debt provided in Act No. 64, GDB will not return "excess funds" to any municipality that requested the moneys after the enactment of Act No. 64. No municipality has contested GDB's determination.

Matching Fund and Equalization Moneys. Act No. 80 also established the Municipal Matching Fund (the "Matching Fund") into which CRIM is required to deposit with GDB the total amount collected on account of Basic Taxes and the Commonwealth Appropriations. Certain moneys in the Matching Fund (the "Equalization Moneys") are available to CRIM in order to guaranty that each municipality will receive revenues in an amount at least equivalent to that received from Equalization Moneys in the previous year. The Equalization Moneys are made up of: (i) the Designated Commonwealth Contributions; and (ii) a portion of the Basic Tax equal to 1.0% of the assessed value of personal property and 3.0% of the assessed value of real property collected by each municipality (the "Designated Basic Tax").

All Equalization Moneys are allocated to the municipalities as follows: first, as may be required so that each municipality receives at least the same amount of aggregate revenues received during the previous fiscal year on account of Equalization Moneys, using first the Designated Commonwealth Contributions, and then, to the extent necessary, the Designated Basic Tax (it has never been necessary to use the Designated Basic Tax to perform such equalization); second, Designated Basic Taxes remaining in the Equalization Moneys are allocated to the municipalities in proportion to the amount by which revenues from their Basic Taxes in such fiscal year exceed their revenues from Basic Taxes in the previous fiscal year; and third, to all municipalities based on certain economic and demographic criteria specified in Act No. 80. The remaining Matching Fund moneys are returned to the municipalities whose Basic Tax levies gave rise to such remaining moneys, and are used, with their other revenues, to meet operating expenses.

CRIM. Prior to July 1, 1993, the Secretary of the Treasury collected all municipal taxes upon real and personal property (which includes intangible property) in each municipality. Since July 1, 1993, and pursuant to Act No. 80, CRIM has undertaken all of the Secretary of the Treasury's responsibilities relating to the collection and distribution of such taxes. CRIM is responsible for the appraisal, assessment, notice of imposition, and collection of all municipal property taxes. All property taxes collected by CRIM are deposited at GDB, which acts as fiscal agent to the Commonwealth and its municipalities.

CRIM is governed by a board (the "CRIM Board") composed of the President of GDB, the Commissioner of Municipal Affairs and seven mayors of municipalities of the Commonwealth. The mayors appointed as members of the CRIM Board shall hold office for a term of four years (and not more than two consecutive terms) and until their successors have been appointed. The Executive Director of CRIM is Eduardo Burgos-Lebrón, CPA, and CRIM's principal offices are located at the Citibank Building, Lomas Verdes Avenue, South Wing-Second Floor, San Juan, Puerto Rico 00919-5387, telephone (787) 274-8503.

Real property is assessed by CRIM and personal property is self-assessed. The most recent assessed valuation figures for real property and personal property taxes for fiscal year 1996 are approximately $8.6 billion and $8.0 billion, respectively. These assessment values have not been adjusted to reflect the real property and personal property exemptions described under "Municipal Revenues" above. Since 1958, no real property reassessment has been made, and construction taking place after that year has been assessed on the basis of what the value of the property would have been in 1958. CRIM recently acquired a multi-functional, multi-disciplinary computer system known as LIMS (Land Information Management System) whose primary purpose is the development, maintenance, updating, and automation of the land maps for Puerto Rico. This system is expected to improve CRIM's ability to identify and assess new construction on real property and to impose and collect real property taxes.

The following table shows for each Municipal Issuer (i) the amount appropriated by the Commonwealth to such Municipal Issuer and (ii) the amount of property taxes collected from municipal taxpayers (excluding the Special Tax), for the fiscal years indicated below.

	Fiscal Year Ended June 30,								
	1994			1995			1996 (preliminary, subject to final audit)		
Municipality	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total
Adjuntas	$2,374,539	$266,577	$2,641,116	$2,476,786	$321,708	$2,798,494	$2,373,025	$910,356	$3,283,381
Aguada	2,235,850	1,271,081	3,506,931	2,600,545	1,088,279	3,688,824	2,590,145	1,394,918	3,985,063
Aguadilla	3,195,871	2,306,953	5,502,824	3,304,252	2,372,050	5,676,302	3,195,616	2,908,142	6,103,758
Aguas Buenas	2,569,835	410,875	2,980,710	2,714,490	450,017	3,164,507	2,761,662	527,230	3,288,892
Aibonito	2,210,250	660,788	2,871,038	2,410,104	606,066	3,016,170	2,459,998	722,514	3,182,512
Añasco	2,176,139	736,384	2,912,523	2,265,490	772,423	3,037,913	2,339,116	807,219	3,146,335
Arecibo	3,074,081	5,098,447	8,172,528	3,033,307	5,282,594	8,315,901	3,199,638	5,859,069	9,058,706
Barceloneta	913,105	2,372,356	3,285,461	859,147	2,541,574	3,400,721	856,867	3,019,576	3,876,443
Bayamón	13,631,390	17,667,432	31,298,822	13,772,360	18,321,892	32,094,252	14,014,375	20,475,296	34,489,671
Cabo Rojo	2,674,505	1,296,891	3,971,396	2,685,072	1,366,515	4,051,587	2,760,900	1,407,754	4,168,653
Caguas	7,232,998	10,778,744	18,011,742	7,362,812	11,715,715	19,078,527	7,591,787	14,388,634	21,980,421
Camuy	2,496,089	448,374	2,944,463	2,676,545	413,755	3,090,300	2,751,607	466,142	3,217,749
Canóvanas	2,285,892	1,098,069	3,383,961	2,305,341	1,310,511	3,615,852	2,317,580	1,803,512	4,121,092
Carolina	12,771,011	23,292,917	36,063,928	14,201,096	21,799,684	36,000,780	14,155,627	24,749,755	38,905,382
Ceiba	2,387,404	236,683	2,624,087	2,547,763	214,668	2,762,431	2,578,410	233,367	2,811,776
Ciales	2,223,068	401,124	2,624,192	2,331,305	427,391	2,758,696	2,367,983	495,905	2,863,889
Cidra	1,781,819	1,916,137	3,697,956	1,865,369	1,962,253	3,827,622	1,886,883	1,932,813	3,819,696
Coamo	2,682,426	632,656	3,315,082	2,775,135	680,864	3,455,999	2,843,078	662,452	3,505,531
Comerío	2,598,363	180,381	2,778,744	2,848,488	192,772	3,041,260	2,914,672	258,006	3,172,679
Culebra	1,299,397	77,209	1,376,606	1,252,639	162,641	1,415,280	1,302,821	77,671	1,380,492
Dorado	1,705,352	2,030,994	3,736,346	1,356,318	2,558,287	3,914,605	1,434,791	3,188,835	4,623,626
Florida	2,207,463	138,404	2,345,867	2,343,149	153,867	2,497,016	2,377,065	208,324	2,585,389
Guánica	2,073,230	363,873	2,437,103	2,226,379	359,296	2,585,675	2,277,045	475,751	2,752,797
Guayama	1,677,372	2,479,764	4,157,136	1,353,159	3,225,764	4,578,923	1,425,469	3,575,251	5,000,720
Guayanilla	2,169,894	623,268	2,793,162	2,088,109	802,110	2,890,219	2,079,188	1,017,099	3,096,286
Guaynabo	6,313,960	19,092,955	25,406,915	6,411,837	19,733,867	26,145,704	6,623,759	22,602,409	29,226,168
Gurabo	2,349,750	805,329	3,155,079	2,398,646	860,501	3,259,147	2,465,948	873,255	3,339,203
Hormigueros	1,671,357	941,627	2,612,984	1,622,362	1,098,268	2,720,630	1,633,173	1,223,092	2,856,265
Humacao	2,215,195	3,244,612	5,459,807	2,211,014	3,857,795	6,068,809	2,350,639	5,334,808	7,685,447
Juana Díaz	2,531,405	1,221,405	3,752,810	2,665,810	1,299,665	3,965,475	2,509,582	1,884,087	4,393,669
Juncos	2,581,113	592,449	3,173,562	2,550,989	802,959	3,353,948	2,612,593	831,345	3,443,939
Lajas	2,319,262	409,674	2,728,936	2,276,117	593,539	2,869,656	2,336,913	636,157	2,973,070
Lares	2,830,317	373,774	3,204,091	2,970,362	387,313	3,357,675	3,042,194	376,218	3,418,412
Las Marías	2,175,888	87,025	2,262,913	2,248,221	155,146	2,403,367	2,297,879	132,803	2,430,682
Las Piedras	1,574,611	1,997,934	3,572,545	1,624,353	2,066,651	3,691,004	1,627,757	2,600,574	4,228,331
Loíza	2,801,106	282,532	3,083,638	2,968,476	339,974	3,308,450	3,032,978	403,129	3,436,107
Luquillo	1,842,936	839,878	2,682,814	1,846,636	937,015	2,783,651	1,905,109	960,031	2,865,140
Manatí	2,717,759	2,174,521	4,892,280	2,875,910	2,140,167	5,016,077	2,739,876	2,802,845	5,542,721
Maricao	2,155,570	150,126	2,305,696	2,241,008	191,737	2,432,745	2,247,348	335,945	2,583,293
Mayagüez	3,875,834	7,579,901	11,455,735	3,949,601	7,666,848	11,616,449	4,084,224	8,665,574	12,749,798
Moca	2,373,187	681,811	3,054,998	2,475,715	754,346	3,230,061	2,548,991	752,684	3,301,675
Morovis	2,633,896	257,841	2,891,737	2,849,248	254,705	3,103,953	2,872,610	401,750	3,274,360
Naguabo	2,482,552	263,978	2,746,530	2,545,259	325,262	2,870,521	2,538,444	512,680	3,051,124
Orocovis	2,635,944	214,395	2,850,339	2,877,669	206,515	3,084,184	2,944,597	281,743	3,226,340
Patillas	2,571,634	293,570	2,865,204	2,670,869	361,539	3,032,408	2,698,951	469,583	3,168,534
Rincón	2,323,646	224,882	2,548,528	2,343,899	326,037	2,669,936	2,359,777	427,261	2,787,038
Río Grande	2,980,669	1,270,923	4,251,592	3,102,604	1,314,758	4,417,362	3,155,300	1,531,083	4,686,382
Sabana Grande	2,423,553	502,294	2,925,847	2,571,118	527,695	3,098,813	2,634,401	562,604	3,197,005
San Germán	2,328,032	1,305,029	3,633,061	2,423,233	1,272,222	3,695,455	2,428,730	1,454,721	3,883,451
San Juan	23,653,352	44,415,189	68,068,541	23,979,679	44,949,556	68,929,235	24,772,186	51,481,424	76,253,610
San Sebastián	2,600,318	1,303,948	3,904,266	2,710,439	1,319,054	4,029,493	2,775,875	1,340,632	4,116,507
Santa Isabel	2,070,253	424,567	2,494,820	2,037,720	563,209	2,600,929	1,657,693	1,651,775	3,309,468
Toa Alta	2,878,599	540,869	3,419,468	2,905,148	681,618	3,586,766	2,892,240	855,095	3,747,335
Toa Baja	4,420,163	6,054,697	10,474,860	4,868,279	6,294,316	11,162,595	5,090,652	8,225,984	13,316,636
Trujillo Alto	4,321,540	1,562,809	5,884,349	4,320,781	1,828,987	6,149,768	4,228,620	2,409,644	6,638,264
Utuado	2,833,971	644,070	3,478,041	3,018,329	642,739	3,661,068	3,040,983	830,184	3,871,167
Vega Alta	2,267,940	997,391	3,265,331	2,062,387	1,347,407	3,409,794	2,100,297	1,461,543	3,561,840
Vega Baja	3,986,079	1,611,323	5,597,402	3,678,602	2,172,950	5,851,552	3,702,009	2,828,797	6,530,806
Vieques	2,126,733	163,291	2,290,024	2,175,860	177,921	2,353,781	2,202,964	343,678	2,546,642
Villalba	2,706,154	209,263	2,915,417	2,887,503	243,344	3,130,847	2,956,657	305,956	3,262,613
Yabucoa	2,210,557	1,182,766	3,393,323	2,384,861	1,162,000	3,546,861	2,437,080	1,313,620	3,750,700
Yauco	2,256,573	1,414,193	3,670,766	2,160,295	1,555,180	3,715,475	2,230,925	1,736,518	3,967,442
TOTAL	$203,688,751	$182,119,222	$385,807,973	$209,566,000	$189,515,501	$399,081,501	$212,635,304	$222,406,820	$435,042,124

Source: Municipal Revenues Collection Center.

The proceeds from the issuance and sale of the Series A Bonds will be used by the Trustee to purchase the Series A Municipal Bonds from GDB. Each Municipal Issuer of Series A Municipal Bonds shall furnish an opinion of Brown & Wood LLP, New York, New York, which shall set forth, among other things, the unqualified approval of said Municipal Issuer's Series A Municipal Bonds then being delivered and that said Series A Municipal Bonds will constitute valid general obligations of such Municipal Issuer. Upon the defeasance of the 1988 Series A Bonds, the outstanding Series B Municipal Bonds under the 1988 Trust Indenture will be released and, in turn, pledged by the Agency as additional security for the Bonds. The Municipal Bonds listed below may include more than one issue of a Municipal Issuer.

				Fiscal Year Ended June 30, 1996			
Municipality	Principal Amount of Bonds to be Purchased or Transferred (1)	Serial Bonds Due July 1,	General Obligation Debt (2)	Municipality's Redemption Fund (3)	Matching Fund (4)	Available for the Payment of General Obligation Debt (5)	Debt Service Payments on General Obligation Debt (6)
Adjuntas	$430,000	1997-2009	$1,220,000	$396,209	$3,126,752	$3,522,961	$153,808
Aguada	1,175,000	1997-2003	4,509,000	1,589,446	3,318,270	4,907,715	842,926
Aguadilla	725,000	1997-2002	2,775,000	3,035,521	2,985,481	6,021,002	1,078,609
Aguas Buenas	1,265,000	1997-2020	2,249,000	504,399	2,985,481	3,489,880	331,386
Aibonito	1,040,000	1997-2020	3,235,000	1,010,514	2,815,269	3,825,783	219,782
Añasco	405,000	1997-2009	3,029,274	485,504	2,781,320	3,266,823	460,265
Arecibo	14,775,000	1997-2020	22,505,000	4,946,354	6,641,571	11,587,925	1,907,853
Barceloneta	900,000	1997-1999	4,984,000	2,349,039	2,777,329	5,126,369	728,929
Bayamón	11,705,000	1997-2014	67,790,000	2,671,792	24,771,241	27,443,033	11,945,708
Cabo Rojo	4,690,000	1997-2016	7,155,000	1,734,385	3,391,084	5,125,469	665,082
Caguas	18,165,000	1997-2015	50,234,000	7,700,717	15,474,585	23,175,302	4,466,126
Camuy	595,000	1997-2015	1,030,000	1,067,605	3,049,277	4,116,883	208,824
Canóvanas	2,220,000	1997-2009	4,015,000	476,007	3,367,550	3,843,557	670,617
Carolina	28,885,000	1997-2019	85,167,000	20,876,429	26,199,087	47,075,516	9,548,919
Ceiba	890,000	1997-2000	1,142,000	723,406	2,633,711	3,357,117	251,069
Ciales	625,000	1997-2006	1,075,000	505,917	2,653,581	3,159,498	125,354
Cidra	1,205,000	1997-2002	3,474,000	1,036,049	3,042,992	4,079,041	757,062
Coamo	230,000	1997-2014	2,394,000	542,498	3,223,646	3,766,144	299,235
Comerío	125,000	1997-1999	580,000	156,920	3,067,327	3,224,247	150,328
Culebra	195,000	1997-1999	195,000	140,092	1,355,309	1,495,401	65,394
Dorado	3,100,000	1997-2014	5,715,000	1,427,664	3,433,621	4,861,285	920,683
Florida	375,000	1997-2001	375,000	215,077	2,512,653	2,727,730	73,404
Guánica	1,105,000	1997-2016	1,347,000	174,794	2,600,011	2,774,805	104,688
Guayama	5,105,000	1997-2020	9,879,000	2,130,552	3,663,354	5,793,905	663,444
Guayanilla	150,000	1997-2000	1,336,000	334,775	2,803,686	3,138,461	359,665
Guaynabo	26,930,000	1997-2021	66,705,000	9,436,386	20,987,293	30,423,679	5,938,727
Gurabo	1,215,000	1997-2002	3,789,000	1,315,066	2,965,897	4,280,963	638,121
Hormigueros	620,000	1997-2020	1,592,000	1,013,052	2,400,672	3,413,724	238,828
Humacao	3,890,000	1997-2013	11,008,000	2,746,229	5,201,446	7,947,674	1,379,374
Juana Díaz	3,161,000	1997-2016	6,714,356	1,907,876	3,597,755	5,505,631	737,042
Juncos	770,000	1997-2000	1,548,000	958,456	3,032,983	3,991,439	272,980
Lajas	415,000	1997-2013	535,000	460,566	2,741,457	3,202,023	128,072
Lares	210,000	1997-2000	1,366,000	580,069	3,157,997	3,738,066	276,630
Las Marías	95,000	1997-1999	399,000	306,311	2,366,388	2,672,699	78,869
Las Piedras	5,195,000	1997-2014	7,670,000	1,095,090	3,280,346	4,375,436	523,919
Loíza	290,000	1997-1999	1,064,000	969,590	3,205,906	4,175,496	226,894
Luquillo	420,000	1997-1999	2,349,000	291,842	2,495,622	2,787,464	423,477
Manatí	730,000	1997-2014	9,138,000	2,199,387	4,234,807	6,434,194	1,386,721
Maricao	150,000	1997-1999	166,000	200,884	2,491,367	2,692,251	60,651
Mayagüez	10,700,000	1997-2019	21,675,000	6,975,197	9,015,033	15,990,229	3,988,176
Moca	3,340,000	1997-2017	3,382,000	926,960	2,961,729	3,888,689	319,919
Morovis	80,000	1997-1999	841,000	413,712	3,103,589	3,517,301	227,380
Naguabo	115,000	1997-1999	445,000	611,527	2,799,797	3,411,324	80,495
Orocovis	80,000	1997-1999	556,000	563,294	3,129,551	3,692,845	80,184
Patillas	380,000	1997-2000	718,000	775,961	2,958,600	3,734,561	129,615
Rincón	480,000	1997-2002	1,320,000	365,931	2,562,527	2,928,458	271,143
Río Grande	3,185,000	1997-2020	5,664,000	2,496,623	3,763,413	6,260,037	663,045
Sabana Grande	390,000	1997-2021	1,011,000	664,129	2,934,711	3,598,840	146,035
San Germán	3,555,000	1997-2015	6,252,000	1,772,233	3,220,915	4,993,149	593,618
San Juan	46,790,000	1997-2011	74,425,000	9,912,876 (7)	63,095,213	73,008,089	9,413,174
San Sebastián	4,440,000	1997-2016	5,330,000	1,321,180	3,398,350	4,719,530	540,150
Santa Isabel	765,000	1997-2020	1,947,000	260,894	3,086,493	3,347,388	218,831
Toa Alta	2,190,000	1997-2020	3,455,000	1,244,580	3,133,479	4,378,059	426,619
Toa Baja	5,200,000	1997-2020	30,370,000	3,365,084	9,365,765	12,730,849	3,970,986
Trujillo Alto	1,605,000	1997-2001	5,960,000	2,637,051	5,172,827	7,809,878	1,637,086
Utuado	940,000	1997-2019	1,749,000	388,367	3,521,273	3,909,640	393,085
Vega Alta	4,560,000	1997-2020	4,865,000	1,248,897	2,987,912	4,236,809	533,265
Vega Baja	7,025,000	1997-2012	11,490,000	3,845,169	4,897,660	8,742,829	1,365,446
Vieques	305,000	1997-2002	325,000	162,092	2,466,354	2,628,446	65,350
Villalba	145,000	1997-2001	821,000	211,382	3,129,043	3,340,424	262,336
Yabucoa	2,870,000	1997-2014	5,381,000	932,854	3,147,402	4,080,256	783,563
Yauco	4,880,000	1997-2015	5,332,000	3,274,686	3,540,674	6,815,361	170,986
TOTAL	$248,191,000		$594,766,630	$124,083,148	$344,226,436	$468,309,584	$75,589,952

(1) Represents the amount of Municipal Bonds that will be purchased with the proceeds of the 1997 Series A Bonds or transferred from the 1988 Trust Indenture.

(2) Represents outstanding general obligation debt of each municipality as of January 1, 1997.

(3) Funds in deposit as of June 30, 1996 in the Redemption Fund of each municipality which represents "excess" moneys as of such date, and after payment of principal of and interest on each municipality's general obligation debt on July 1, 1996.

(4) Represents amount deposited in the Matching Fund during fiscal year ended June 30, 1996. Preliminary, subject to final audit.

(5) Represents the sum of amounts shown in the Municipality's Redemption Fund and Matching Fund columns for each Municipal Issuer.

(6) Represents principal and interest payments due on the municipality's general obligation debt on January 1, 1996 and July 1, 1996.

(7) Reflects the deduction of $21,457,972.56 from the Redemption Fund of the Municipality of San Juan as per Supreme Court Decision.

Source: Municipal Revenues Collection Center and Government Development Bank for Puerto Rico.

The Reserve Account

The Agency will cause to be deposited in the Reserve Account from the proceeds of the Bonds an amount equal to the lesser of: (i) ten percent (10%) of the original proceeds of the Bonds, (ii) the maximum principal and interest requirements for any fiscal year on the Bonds, and (iii) 125% of average annual debt service on the Bonds. The Agency will maintain in the Reserve Account an amount equal to the lesser of: (i) ten percent (10%) of the original proceeds of each series of bonds outstanding under the Indenture, (ii) the maximum annual principal and interest requirements for any fiscal year on all bonds outstanding under the Indenture, and (iii) 125% of average annual debt service on all bonds outstanding under the Indenture (the "Required Debt Service Reserve"). Moneys in the Reserve Account shall be applied first to the payment of interest on the Bonds and any refunding bonds and principal of the serial Bonds and any serial refunding bonds whenever moneys in the Bond Service Account are insufficient for such purpose, and then for the purpose of making the required deposits to the Redemption Account whenever moneys received by the Trustee from the payments of principal of and interest on the Municipal Bonds are insufficient for such purpose. Whenever moneys in the Reserve Account exceed the Required Debt Service Reserve, such excess shall be transferred to the Bond Service Account.

The Enabling Act provides that, in order to assure the maintenance of the Reserve Account in an amount equal to the Required Debt Service Reserve, there shall be annually apportioned and paid to the Agency by the Commonwealth for deposit in the Reserve Account such sum, if any, as shall be certified by the President of the Agency to the Secretary of the Treasury of the Commonwealth as necessary to restore the Reserve Account to the amount of the Required Debt Service Reserve. The President of the Agency shall in each year, on or before December 1, deliver to the Secretary of the Treasury his certificate stating the sum, if any, required to restore the Reserve Account to the Required Debt Service Reserve, and the sum so certified shall be apportioned and paid to the Agency from any available or uncommitted funds in the General Fund of the Treasury during the then current fiscal year of the Commonwealth without further action by the Legislature. If there are no such available funds, the Secretary of the Treasury shall request the amount so certified from the Director of the Office of Management and Budget of the Commonwealth, who shall include it in the General Budget of the Commonwealth for the coming fiscal year. The payment of such amount is subject to appropriation by the Legislature, which appropriation is authorized but not legally required to be made.

DEBT SERVICE REQUIREMENTS FOR THE BONDS

The following table presents debt service requirements for: (i) the Series A Bonds; (ii) the Series B Refunding Bonds; and (iii) all of the Bonds. Debt service requirements for each fiscal year, as shown in the following table, include interest due on January 1 of such fiscal year and principal and interest due on July 1 of the following fiscal year.

Debt Service Requirements*

Fiscal Year Ending June 30	Debt Service on the Series A Bonds (1)	Debt Service on the Series B Refunding Bonds (2)	Total Debt Service on the Bonds (3)
1997	$12,601,475	$6,300,681	$18,902,156
1998	22,870,700	7,639,600	30,510,300
1999	23,519,625	7,171,050	30,690,675
2000	20,135,375	7,108,300	27,243,675
2001	16,817,050	7,045,600	23,862,650
2002	17,322,450	6,525,800	23,848,250
2003	17,569,725	4,553,375	22,123,100
2004	17,685,425	3,248,900	20,934,325
2005	18,024,775	3,265,750	21,290,525
2006	18,395,475	3,262,250	21,657,725
2007	18,404,175	740,050	19,144,225
2008	8,679,175	9,864,750	18,543,925
2009	18,384,175		18,384,175
2010	18,188,425		18,188,425
2011	18,476,375		18,476,375
2012	15,264,775		15,264,775
2013	14,552,775		14,552,775
2014	14,633,550		14,633,550
2015	12,386,925		12,386,925
2016	8,553,850		8,553,850
2017	7,766,450		7,766,450
2018	7,557,150		7,557,150
2019	7,685,425		7,685,425
2020	5,807,300		5,807,300
2021	2,621,675		2,621,675
Total	$363,904,275	$66,726,106	$430,630,381

* Totals may not add due to rounding.
(1) Principal and interest payments on the Series A Bonds.
(2) Principal and interest payments on the Series B Refunding Bonds.
(3) Principal and interest payments on the Bonds.

COMMONWEALTH PUBLIC SECTOR DEBT

The information set forth under "Public Service Debt" and "Debt Service Requirements for Commonwealth General Obligation Bonds and Certain Guaranteed Debt" under Debt in the *Commonwealth Appendix* does not reflect the issuance on April 3, 1997 of the Public Improvement Bonds and the Refunding Bonds (and the refunding of certain outstanding Commonwealth general obligation bonds with the proceeds of the Refunding Bonds) nor the expected issuance on April 24, 1997 of $147,710,000 of the Commonwealth's Public Improvement Bonds of 1997, Series B. See the information under Debt in the *Commonwealth Appendix*.

RECENT DEVELOPMENTS

The following information supplements some of the information appearing in the sections of the *Commonwealth Appendix* referenced below.

Relationship with the United States

On March 19, 1997, Senators Larry Craig and Bob Graham introduced legislation in the U.S. Senate proposing a mechanism, very similar to that proposed by Representative Don Young on February 26, 1997 in the U.S. House of Representatives, to settle permanently the political relationship between Puerto Rico and the United States, either through full self-government (e.g. statehood or independence, including, as an alternative, free association via a bilateral treaty) or continued commonwealth. Under the proposed legislation, failure to settle on full self-government after completion of the referenda process provided therein would result in retention of the current commonwealth status. See "Relationship with the United States" in the *Commonwealth Appendix*.

Other Public Corporations

Aqueduct and Sewer Authority. On March 21, 1997, the Puerto Rico Supreme Court partially lifted an order issued by the Puerto Rico Court of Appeals staying the construction of the North Coast Superaqueduct project (the "Project"). The Supreme Court authorized the Puerto Rico Aqueduct and Sewer Authority to continue installing on land the pipes for the Project, without laying more pipes on the beds of creeks and rivers. In addition, the Supreme Court gave the parties five days to submit their additional written arguments regarding the validity of the permits of the Project, and also gave the Court of Appeals fifteen days to decide the merits of the challenge of such permits filed by a local environmental group. See "Other Public Corporations" in *Public Corporations* in the *Commonwealth Appendix*.

Telephone Authority. On April 7, 1997, Governor Rosselló announced the Government's intention of selling the Puerto Rico Telephone Company ("PRTC"). The sale is expected to be completed by the end of 1997. No assurance can be given that the sale will be completed by the end of 1997. The proceeds of the sale are expected to be used primarily to mitigate the unfunded pension benefit obligation of the Employees Retirement System of the Government of Puerto Rico and its instrumentalities, to create a trust fund for infrastructure, principally to assist in the solution of the problems associated with the supply and distribution of water resources, and to pay certain benefits to PRTC employees.

THE INDENTURE

The following is a summary of certain provisions of the Indenture. References in this summary to "Bonds" include the Bonds to which the Official Statement relates and any refunding bonds referred to below under "Refunding Bonds." This summary does not purport to be complete and reference is made to the Indenture. See "MISCELLANEOUS." Certain provisions summarized below will be modified for the benefit of the Insurer in consideration of its issuance of the Policy.

Funds and Accounts

The Indenture establishes a Sinking Fund to be held by the Trustee. The Sinking Fund is composed of three separate accounts: the Bond Service Account, the Redemption Account and the Reserve Account. The Trustee is required to deposit moneys received from payments on the Municipal Bonds in such accounts as described above under "SOURCES OF PAYMENT FOR THE BONDS."

Moneys in the Bond Service Account will be applied to the payment of the interest on all the outstanding Bonds and the principal of all serial Bonds.

Moneys in the Redemption Account will be applied to the purchase or redemption of term Bonds, including the retirement of term Bonds to the extent of the Amortization Requirements.

The Agency will cause to be deposited, from the proceeds of the Bonds and from moneys available under the 1988 Trust Indenture, to the credit of the Reserve Account, an amount equal to the Required Debt Service Reserve. Thereafter, the Agency will cause to be deposited to the credit of the Reserve Account to the extent of any deficiency therein (i) all moneys paid to the Agency pursuant to the Enabling Act for the purpose of restoring the Reserve Account to the required amount (see "SOURCES OF PAYMENT FOR THE BONDS-The Reserve Account" above) and (ii) any other moneys which may be made available to the Agency for the purposes of the Reserve Account from any other source. Moneys in the Reserve Account will be applied first to the payment of interest on the Bonds and maturing principal of the serial Bonds whenever and to the extent moneys in the Bond Service Account are insufficient for such purpose, and then for the purpose of making the required deposits to the Redemption Account whenever and to the extent moneys received by the Trustee from the payments of principal of and interest on the Municipal Bonds are insufficient for such purpose. The Agency may at any time deliver to the Trustee for deposit to the credit of the Reserve Account, with the prior approval of the Insurer, in lieu of cash or Investment Obligations (as defined herein) a qualifying insurance policy or a letter of credit the issuer of whose policy or letter of credit results in the rating of municipal obligations secured by such policy or letter of credit, at the time of deposit in the Reserve Account, in any of the three highest rating categories (without regard to any gradations within such category) by both Moody's Investors Service and Standard & Poor's Ratings Service or their respective successors as provided in the Indenture.

A special fund is created under the Indenture to be held by the Trustee and designated "Puerto Rico Municipal Finance Agency Series 1997 Operating Fund" (herein called the "Operating Fund"). Moneys held for the credit of the Operating Fund may be used for the payment of the fees and expenses of the Trustee, administrative expenses of the Agency, the fees, expenses and other obligations of the Agency in respect of any credit facility held in the Reserve Account, and financing costs incurred with respect to the Bonds and for such other lawful purposes of the Agency as the President of the Agency shall direct.

Acquisition Fund

The Series A Bond proceeds remaining after the required deposit to the Reserve Account and after the payment of financing expenses shall be deposited in the Acquisition Fund. The Trustee shall apply moneys in the Acquisition Fund to acquire Series A Municipal Bonds from GDB only upon proper requisition by the Agency. Moneys in the Acquisition Account may also be used to pay maturing principal of and interest on the Bonds (whether at maturity or by redemption) whenever moneys in the Sinking Fund are insufficient for such purpose.

Escrow Fund

The Series B Refunding Bond proceeds remaining after the payment of financing expenses shall be transferred to and held by the 1988 Trustee in the Escrow Fund for the sole and exclusive purpose of paying the principal of and redemption premium, if any, and interest on the Refunded Bonds as described herein. See "PLAN OF FINANCING" above.

Investment of Funds

Any moneys in the Bond Service Account and the Redemption Account will be invested and reinvested by the Trustee, at the direction of the Agency and with the approval of the Insurer, in Investment Obligations listed in clauses (i), (ii), (iii), (v), (ix) and (x) below or any other Investment Obligations listed below permitted in writing by Moody's Investors Service and Standard & Poor's Ratings Service or any successors thereto (the eligible provider of any investment agreement listed in said clause (x) being limited to those whose unsecured long-term debt obligations are rated in the highest rating category by Moody's Investors Service and Standard & Poor's Ratings Service or any successors thereto or which investment agreement is collateralized at all times in a manner sufficient to result in such agreement being rated in the highest such rating category by such rating services), and any moneys in the Reserve Account, the Acquisition Fund, and the Operating Fund will as nearly as may be practicable (except as provided in the

Indenture with respect to defeasance and with respect to Bonds issued thereunder to refund any outstanding Bonds), be invested and reinvested by the Trustee, at the direction of the Agency and with the approval of the Insurer, in Investment Obligations, listed below, in each case, which mature, or which are subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys held for the credit of such Funds and Accounts will be required for the purposes intended. Investment Obligations so purchased with moneys in any Account or Fund will be deemed at all times to be part of such Account or Fund, and the interest accrued thereon and any profit or loss resulting from such investment will be credited to or charged against such Account or Fund.

"Investment Obligations" include:

(i) direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States Government and receipts evidencing the ownership of payments of principal of or interest on any of such obligations ("Government Obligations");

(ii) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any of the following agencies or instrumentalities of the United States Government: Banks for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Federal Financing Bank, Government National Mortgage Association, Federal National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation, and Federal Housing Administration;

(iii) obligations issued or unconditionally guaranteed as to principal and interest by any agency or instrumentality controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress;

(iv) time deposits, certificates of deposit or similar arrangements with, or banker's acceptances issued by, any bank, banking association or trust company, including the Trustee, which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than $150,000,000 and reported deposits of not less than $250,000,000;

(v) repurchase agreements with banks mentioned in (iv) above or with primary government dealers having a capital and surplus in excess of $150,000,000 with respect to any of the securities mentioned in (i), (ii) and (iii) above, provided such securities are on deposit with the Trustee and such agreements are structured as sale-purchase agreements rather than secured loans;

(vi) obligations issued by the Commonwealth or any state or territory of the United States, which are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody's Investors Service, Inc. ("Moody's Investors Service") or any successor thereto and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's Ratings Service"), or any successor thereto;

(vii) municipal obligations, the payment of the principal of and the interest on which is insured, which are rated, in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody's Investors Service or any successor thereto and Standard & Poor's Ratings Service or any successor thereto;

(viii) commercial paper rated, or backed by a letter of credit or line of credit the provider of which is rated, in the highest rating category (without regard to any gradations within such category) by both Moody's Investors Service or any successor thereto and Standard & Poor's Ratings Service or any successor thereto;

(ix) receipts evidencing the ownership of payments of principal of or interest on any of the securities described in (ii) and (iii) above;

(x) an agreement for the investment of moneys entered into by the Trustee with a bank, trust company or national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, or an insurance company, financial corporation or primary securities dealer (A) having a capital and surplus in excess of $150,000,000, provided that the equity or unsecured long-term debt obligations of such institution, or of such institution's parent or holding company, are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody's Investors Service or any successor thereto and Standard & Poor's Ratings Service or any successor thereto or (B) collateralized at all times by such obligations as are described in clauses (i) through (iii) above, having a market value at least equal to the principal amount of such agreement, as to which collateral the Trustee has a perfected first priority security interest and which collateral is held by the Trustee or its agent, free and clear of claims by third parties;

(xi) units of beneficial interest in any non-arbitrage investment program pools created by GDB or any of its subsidiaries or affiliates;

(xii) any other obligations permitted under the laws of the Commonwealth which are rated in any of the three highest rating categories (without regard to any gradations within such category) by both Moody's Investors Service or any successor thereto and Standard & Poor's Ratings Service or any successor thereto; and

(xiii) any securities otherwise permitted as eligible collateral under Act No. 69 of the Legislature of Puerto Rico, approved August 14, 1991.

Refunding Bonds

The Agency may issue Bonds under the Indenture for the purpose of providing funds, together with any other available funds, to pay at or redeem prior to their maturity or maturities all or any part of the Bonds outstanding under the Indenture, including the payment of any redemption premium thereon, the interest thereon to the date fixed for their payment or redemption and any expenses incurred in connection with such refunding. In the event less than all of the Bonds are being so refunded, the prior consent of the Insurer shall be required.

The Trustee shall not authenticate and deliver such refunding Bonds unless it receives evidence that, among other things, the payments to be received by the Trustee in any fiscal year on the Municipal Bonds together with any available moneys specified for such purpose by the Agency will be at least equal to the principal and interest requirements in such fiscal year for all Bonds outstanding under the Indenture.

Enforcement of Municipal Bonds

The Agency has agreed to take any and all action available to it under the laws of the Commonwealth to assure that payment of the principal of and interest on the Municipal Bonds held by the Trustee will be timely paid, and that if payment of such principal and interest is not made when the same becomes due and payable, the Agency has agreed to take any and all action available to it under the laws of the Commonwealth to enforce such payment.

Additional Indebtedness

The Agency has agreed not to incur any additional indebtedness secured by a lien on the Municipal Bonds and payments in respect thereof or which indebtedness will be payable from the Sinking Fund or the Acquisition Fund; provided, however, that additional series of refunding bonds may be issued from time to time as permitted under "Refunding Bonds" above on a parity with the Bonds.

Accounting

The Agency has covenanted that it will keep accurate records and accounts of the moneys collected and of the application of such moneys. Such records and accounts will be open at all reasonable times to the inspection of the Bondholders and their agents and representatives.

The Agency has further covenanted that promptly after the close of each fiscal year an audit of its books and accounts for such fiscal year will be made by an independent firm of certified public accountants of recognized ability and standing to be chosen by the Agency.

Events of Default; Remedies

The Indenture provides for each of the following events to be declared as an "event of default" under the Indenture:

(a) payment of principal of and redemption premium, if any, on the Bonds was not made when the same became due and payable (whether at maturity or upon redemption), or

(b) payment of any installment of interest was not made when the same became due and payable, or

(c) there was a failure to retire Bonds by purchase or redemption in any fiscal year in a principal amount at least equal to the Amortization Requirement for such fiscal year, or

(d) the amount on deposit to the credit of the Reserve Account was less than the Required Debt Service Reserve, and the President of the Agency failed or refused to comply with the provisions of the Enabling Act which require him to certify the amount of such deficiency to the Secretary of the Treasury, or the Commonwealth failed to apportion and pay to the Agency for deposit in the Reserve Account such amount as certified by the President of the Agency pursuant to such provisions of the Enabling Act, or

(e) the Agency was, for any reason, rendered incapable of fulfilling its obligations under the Indenture, or

(f) the Agency defaulted in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture on the part of the Agency to be performed and such default continued for 30 days after written notice to the Agency by the holders of not less than 10% in aggregate principal amount of the Bonds then outstanding.

Upon the happening and continuance of any event of default under the Indenture, the Trustee may, and upon the request of the holders of 25% in aggregate principal amount of the Bonds then outstanding must, proceed to protect and enforce its rights and the rights of the Bondholders by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power granted in the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee deems most effectual to protect and enforce such rights.

No holder of any of the Bonds has any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Indenture or for any other remedy under the Indenture unless such holder has given to the Trustee written notice of such event of default on account of which suit, action or proceeding is to be instituted and unless also the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding have made written request of the Trustee after the right to exercise such power or right of action accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise such powers or to institute such suit, action or proceeding, and unless, also, there has been offered to the Trustee reasonable security and indemnity

against the cost and liabilities to be incurred therein or thereby, and the Trustee refused or neglected to comply with such request within a reasonable time. The Indenture provides, however, that notwithstanding any other provision therein, the owner of any Bond has the absolute and unconditional right to receive payment of the principal of and premium, if any, and interest on such Bond when due and to institute suit for the enforcement of any such payment, and such right may not be impaired without the consent of such owner.

Defeasance

Any outstanding Bond will be deemed to have been paid within the meaning of the Indenture when the whole amount of the principal of and interest on such Bond has been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied or when, among other things, (a) if such Bond has been duly called for redemption or irrevocable instructions to call such Bond for redemption have been given to the Trustee, (b) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Obligations, which do not contain provisions permitting redemption at the option of the issuer, the principal of and interest on which when due, and without reinvestment, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor, will be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such Bond on or prior to the redemption date thereof, and (c) in the event such Bond does not mature and is not to be redeemed within the next succeeding 60 days, the Agency has given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the holder of such Bond stating that the deposit of moneys or Government Obligations described above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such Bond.

Supplemental Indentures

The Agency and the Trustee, without the consent of the holders of the Bonds, may enter into supplemental indentures to (i) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture; (ii) grant or to confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee; (iii) add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Indenture, other conditions, limitations and restrictions thereafter to be observed; or (iv) add to the covenants and agreements of the Agency in the Indenture other covenants and agreements thereafter to be observed by the Agency, or to surrender any right or power conferred upon the Agency in the Indenture.

All other supplemental indentures require the consent of the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding; provided, however, that no such supplement shall permit (a) an extension of the time for payment of the principal of or interest on any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of funds other than the lien and pledge created by the Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplement or any waiver under the Indenture.

Notwithstanding the foregoing, all amendments or supplements to the Indenture which adversely affect the Insurer's interests shall not become effective until the Insurer shall have consented thereto.

Concerning the Insurer

For purposes of giving notice, making a request, granting consent and giving directions under the Indenture, the Insurer shall be deemed to be the sole owner of the Insured Bonds. Any exercise by the Insurer of such rights shall not be construed as taken for the benefit of the owners of the Insured Bonds and shall not be construed as a determination by the Insurer as to whether the additional consent of such owner is or is not required.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Agency at an aggregate discount of $1,983,629 from the initial public offering prices of the Bonds set forth or derived from information set forth on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and under a Purchase Contract, the Underwriters will be obligated to purchase all the Bonds, if any Bonds are purchased. The Purchase Contract provides for indemnification of the Underwriters by the Agency, to the extent permitted by law, against certain civil liabilities. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices (or at yields greater than such yields), and such offering prices (or yields) may be changed, from time to time, by the Underwriters.

Morgan Stanley & Co. Incorporated ("Morgan Stanley"), the senior managing underwriter, has entered into a written agreement with BP Capital Markets, Inc. ("BP Capital Markets"), an affiliate of Banco Popular de Puerto Rico, which is the 1988 Trustee, pursuant to which BP Capital Markets has agreed to cooperate in connection with Morgan Stanley's provision of underwriting and investment banking services to the Agency with respect to the Bonds. Pursuant to these arrangements, the existence of which has been disclosed to the Agency and GDB, BP Capital Markets will be entitled to receive a portion of Morgan Stanley's actual net profits, if any, in connection with the underwriting of the Bonds.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the Agency and each Municipal Issuer must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The failure to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Agency and each Municipal Issuer have covenanted to comply to the extent permitted by the Constitution and the laws of the Commonwealth with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Agency and each Municipal Issuer from complying with the requirements of the Code.

In the opinion of Bond Counsel, subject to continuing compliance by the Agency and each Municipal Issuer with the tax covenant referred to above, under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, interest on the Bonds is not includable in gross income for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be includable in the computation of the alternative minimum tax on corporations imposed by the Code. Bond Counsel is further of the opinion that the Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations.

Ownership of the Bonds may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico.

Prospective purchasers of the Bonds should consult their tax advisors as to applicability and impact of any collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds. Corporate investors should be aware that President Clinton's budget proposal for fiscal year 1998 would reinstate the corporate environmental tax for taxable years commencing after December 31, 1996 and before January 1, 2008.

Discount Bonds

Under the Code, the difference between the principal amount of the Bonds and the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of the Series A Bonds maturing on July 1 of the years 2008 through 2010, inclusive, and on July 1, 2017 and 2021, and the Series B Refunding Bonds maturing on July 1, 2008 (collectively the "Discount Bonds") was sold, is original issue discount. Original issue discount on the Discount Bonds represents interest which is not includable in federal gross income. A portion of such interest that accrues to the Beneficial Owner of such Discount Bonds in each year, as described below, is, however, included in the calculation for determining a corporate taxpayer's alternative minimum tax and the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences described above under the caption "TAX EXEMPTION" in the year of accrual. Consequently, Beneficial Owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the Beneficial Owner may not have received cash in such year. Original issue discount on Discount Bonds will accrue over the terms of such Bonds at a constant interest rate compounded in a manner similar to that used in computing accreted values on capital appreciation bonds. Interest not includable in federal gross income equal to the original issue discount accruing during the period a Beneficial Owner holds any such Discount Bonds will increase the adjusted basis in such Discount Bond by the amount of such accruing discount for purposes of determining taxable gain or loss on the redemption, sale or other disposition of such Discount Bond. The accrual of original issue discount and its effect on the redemption, sale or other disposition of Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Beneficial Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds.

Premium Bonds

The difference between the amount payable at maturity of the Series A Bonds maturing July 1 of the years 1997 through 2007, inclusive, and on July 1, 2011 and 2012, and the Series B Refunding Bonds maturing on July 1 of the years 1997 through 2007, inclusive, and the tax basis of such Bonds to a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) is "bond premium". Bond premium is amortized over the term of such Bonds for federal income tax purposes. A Beneficial Owner of such Bond is required to decrease his adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year he holds such Bonds. The amortizable bond premium on such bond attributable to a taxable year is not deductible for federal income tax purposes. Beneficial Owners of such Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon redemption, sale or other disposition of such Bonds and with respect to the state and local tax consequences of owing and disposing of such Bonds.

LEGAL MATTERS

The authorization and issuance of the Bonds are subject to the approval of legality by Brown & Wood LLP, New York, New York, Bond Counsel, whose proposed form of opinions is set forth in Appendix A hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, McConnell Valdés, San Juan, Puerto Rico.

LEGAL INVESTMENT

The Bonds will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico as required by law.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Deloitte & Touche LLP will verify from the information provided to them the mathematical accuracy as of the closing of the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds (see "PLAN OF FINANCING"), and (2) the computations of yield on both the securities and the Bonds contained in such schedules used by Bond Counsel in its determination that interest on the Bonds is excludable from gross income for federal income tax purposes. Deloitte & Touche LLP will express no opinion on the assumptions provided to them, nor as the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, GDB has acted as financial advisor to the Agency in connection with the Bonds offered hereby. As financial advisor, GDB participated in the selection of the Underwriters of the Bonds. Certain of the Underwriters have been selected by GDB to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with GDB.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Service have given the Bonds ratings of Baa1 and A-, respectively. Moody's Investors Service and Standard & Poor's Ratings Service have given the Insured Bonds ratings of Aaa and AAA, respectively, on the understanding that the standard policy of the Insurer insuring the payment of the principal of and interest due on the Insured Bonds will be issued by the Insurer on the date of delivery of the Bonds. Such ratings reflect only the respective views of such organizations and the explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market prices of the Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"):

(a) the Commonwealth has covenanted for the benefit of the Beneficial Owners of the Bonds (generally, the tax owners of the Bonds): (i) to file, within 305 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 1997, annual financial statements, prepared in accordance with generally accepted accounting principles, and operating data generally consistent with the information included in the *Commonwealth Appendix* and the Commonwealth Annual Financial Report, which have been incorporated by reference

herein, with each NRMSIR and with any Commonwealth state information depository ("SID"), and (ii) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by the Commonwealth to provide the financial statements and operating data described in clause (i) on or before the date specified above; and

(b) the Agency has covenanted for the benefit of the Beneficial Owners of the Bonds:

(i) to file, within 305 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 1997, with each NRMSIR and with any Commonwealth SID, a report setting forth with respect to such fiscal year the following information: (1) the amount of all deposits to the credit of, and the amount of the withdrawals from, each fund or account created under the provisions of the Indenture; (2) a brief description of the Bonds issued, paid, purchased or redeemed during such fiscal year and the outstanding principal amount of the Bonds; (3) a brief description of the Municipal Bonds held by the Trustee and the outstanding principal amount of the Municipal Bonds; and (4) a balance sheet as of the end of such fiscal year for each fund or account created under the provisions of the Indenture, which balance sheet shall set forth the amount held for the credit of each such fund or account at the end of such fiscal year;

(ii) to file with each NRMSIR and with any Commonwealth SID, within 305 days after the end of each fiscal year, in the event that at the end of any such fiscal year Municipal Bonds issued by any one Municipal Issuer come to represent twenty percent (20%) or more of the aggregate outstanding principal amount of the Municipal Bonds, annual financial statements for such Municipal Issuer, prepared in accordance with generally accepted accounting principles, for the most recently ended fiscal year of such Municipal Issuer and each fiscal year thereafter until such time that at the end of any such fiscal year Municipal Bonds issued by such Municipal Issuer come to represent less than twenty percent (20%) of the aggregate outstanding principal amount of the Municipal Bonds;

(iii) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by the Agency to provide any of the information required in clauses (i) or (ii) on or before the date specified above; and

(iv) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

a. principal and interest payment delinquencies;
b. non-payment related defaults;
c. unscheduled draws on debt service reserves reflecting financial difficulties;
d. unscheduled draws on credit enhancements reflecting financial difficulties;
e. substitution of credit or liquidity providers, or their failure to perform;
f. adverse opinions or events affecting the tax exempt status of the Bonds;
g. modifications to rights of the holders (including Beneficial Owners) of the Bonds;
h. Bond calls;
i. defeasances;
j. release, substitution, or sale of property securing repayment of the Bonds; and
k. rating changes.

With respect to the following events:

Events (d) and (e). The Agency does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Agency applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the Bonds, see "TAX EXEMPTION".

Event (h). The Agency does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement under "The Bonds-Redemption", the only open issue is which Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the Bondholders as required under the terms of the Bonds and the Indenture, and public notice of redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or bond purchases.

As of April 10, 1997, there is no Commonwealth SID, and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08541-0840; Kenny Information Systems, Inc., 65 Broadway, 16th Floor, New York, New York 10006; Disclosure, Inc., 5161 River Road, Bethesda, Maryland 20816, Attn: Document Acquisitions/Municipal Securities; Moody's NRMSIR Public Finance Information Center, 99 Church Street, New York, New York 10007; Thompson NRMSIR, 395 Hudson Street, New York, New York 10004, Attn: Municipal Disclosure; and R.R. Donnelly Financial, Municipal Securities Disclosure Archive, 559 Main Street, Hudson, Massachusetts 01749.

The Commonwealth expects to provide the information described in (a)(i) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no official statement is issued by the 305-day deadline, by delivering its Comprehensive Annual Financial Report by such deadline.

The Agency may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Agency, such other events are material with respect to the Bonds, but the Agency does not undertake to provide any such notice of the occurrence of any material event except those listed above.

The Commonwealth and the Agency each acknowledges that its undertaking described above is intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owner, provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of such provisions.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenant (the"Covenant") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Commonwealth or with the Agency, as applicable, written notice of any request to cure such breach, and the Commonwealth or the Agency, as the case may be, shall have refused to comply within a reasonable time. All proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan for the equal benefit of all Beneficial Owners of the outstanding Bonds benefitted by the Covenant, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 of Act No. 104, approved June 19, 1955, as amended (32 L.P.R.A. § 3077 and § 23077a), which governs the scope of legal actions against the Commonwealth, and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenant may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Commonwealth or the Agency, as the case may be, or type of business conducted; the Covenant, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the Commonwealth or the Agency, as the case may be, or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Commonwealth or the Agency, as the case may be, elects that the Covenant shall be deemed amended accordingly.

The Commonwealth and the Agency have further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

The Covenant has been made in order to assist the Underwriters in complying with the Rule.

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the Indenture, the various acts and the Bonds do not purport to be complete statements of any or all of such provisions and are made subject to all the detailed provisions thereof, to which reference is hereby made for further information. Copies of the foregoing documents are available from GDB, upon written request directed to: Government Development Bank for Puerto Rico, 140 Broadway, 38th floor, New York, New York 10005. Appended to and constituting a part of this Official Statement are the proposed form of opinions of Brown & Wood LLP, Bond Counsel (Appendix A) and the specimen of the municipal bond insurance policy of Financial Security (Appendix B). The information set forth or incorporated by reference in this Official Statement, except for information pertaining to DTC and Financial Security, was supplied by certain officials of the Agency, the Commonwealth or certain of its other agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or its other agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC, and the information relating to Financial Security was supplied by Financial Security.

This Official Statement will be filed with each NRMSIR and with the MSRB.

This Official Statement has been duly authorized, executed and delivered by the Agency.

PUERTO RICO MUNICIPAL FINANCE AGENCY

By: /s/ *Marcos Rodriguez-Ema*
Chairman of the Board and President

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May __, 1997

PUERTO RICO MUNICIPAL FINANCE AGENCY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 29 of the Legislature of Puerto Rico, approved June 30, 1972, as amended (the "Act"), creating Puerto Rico Municipal Finance Agency (the "Agency"), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth").

We have also examined certified copies of the proceedings of the Board of Directors of the Agency authorizing the execution and delivery of a Trust Indenture, dated as of April 1, 1997 (the "Trust Indenture"), by and between the Agency and Banco Santander Puerto Rico, trustee (the "Trustee"), and other proofs submitted relative to the authorization, issuance and sale of the following described bonds (the "1997 Series A Bonds")

$222,860,000

PUERTO RICO MUNICIPAL FINANCE AGENCY

1997 SERIES A BONDS
Dated: April 1, 1997.

Maturing in such principal amounts and subject to redemption, all as set forth in the Trust Indenture, and bearing interest at the rates set forth in the resolution of the Agency awarding the Bonds.

The proceeds of the 1997 Series A Bonds are to be used to acquire municipal bonds of various municipalities of the Commonwealth and to make a deposit to the Reserve Account established under the Trust Indenture in an amount (with other moneys deposited therein) equal to the Required Debt Service Reserve (as defined in the Trust Indenture).

Pursuant to the Trust Indenture, the Agency is authorized to issue additional series of bonds from time to time upon the terms and conditions set forth therein, and any such bonds will be on a parity with the 1997 Series A Bonds and all other bonds issued under the Trust Indenture (all such additional series of bonds together with the 1997 Series A Bonds being herein collectively called the "Bonds").

The principal of and the interest on the 1997 Series A Bonds and all other bonds issued by the Agency under the Trust Indenture are payable from payments of principal of and interest on the municipal bonds purchased and held by and pledged to the Trustee and other funds of the Agency available therefor, as provided in the Trust Indenture.

We have also examined one of the 1997 Series A Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

3. As authorized by the Act and by said proceedings, the Trust Indenture has been duly executed and delivered and contains reasonable and sufficient covenants and provisions in accordance with law with respect to the payments of principal of and interest on the municipal bonds purchased by the Trustee, the conservation and application of all funds, the safeguarding of moneys on hand or on deposit and the rights and remedies of the Trustee and the holders of the Bonds.

4. The 1997 Series A Bonds have been duly authorized and issued, among other things, to provide funds for the purchase of municipal bonds and to make a deposit to the Reserve Account.

5. The 1997 Series A Bonds are valid and binding obligations of the Agency, payable from funds of the Agency, including, but without limitation, (i) payments of principal of and interest on municipal bonds purchased by the Trustee, (ii) moneys in and investment income on the Reserve Account and the Acquisition Fund established under the Trust Indenture held by the Trustee, (iii) the proceeds of the sale of any such municipal bonds and (iv) any moneys appropriated or transferred to the Agency by the Commonwealth pursuant to the Act. The Trust Indenture provides for the creation of a special fund designated "Puerto Rico Municipal Finance Agency Series 1997 Interest and Sinking Fund" (herein called the "Sinking Fund") and for the payment into said special fund of a sufficient amount of the payments of principal of and interest on municipal bonds purchased by the Trustee on behalf of the Agency and moneys available in the Reserve Account in the Sinking Fund to pay the principal of and interest on all Bonds issued under the Trust Indenture as the same become due and payable, which fund is pledged to and charged with the payment of the principal of and interest on all Bonds issued under the Trust Indenture.

6. The 1997 Series A Bonds, together with all other bonds issued by the Agency under the Trust Indenture, are additionally secured by a pledge and assignment of all municipal bonds purchased by the Trustee pursuant to the Trust Indenture and all payments of principal and interest made in respect of any municipal bonds so purchased.

7. The Agency in the Trust Indenture has validly covenanted and will be legally obligated diligently to enforce and take all reasonable steps, actions and proceedings for the enforcement of the terms, covenants and conditions of all municipal bonds purchased by the Trustee on behalf of the Agency, including the prompt collection, and the giving of notice to the Secretary of the Treasury of the Commonwealth (the "Secretary") of any failure or default of any municipality in the payment, of the principal of and the interest on such municipal bonds.

8. The Agency is authorized and under the Trust Indenture has covenanted to cause to be made by its President and delivered to the Secretary annually, on or before December 1, his certificate as provided for by the Act, stating the sum, if any, required to restore the Reserve Account to an amount equal to the Required Debt Service Reserve. The sum or sums so certified are required to be apportioned and paid to the Agency from any available or uncommitted funds in the General Fund of the Commonwealth during the then current fiscal year of the Commonwealth. Such apportionment does not require legislative action. If there are no such available or uncommitted funds, the Secretary is required to request the amount so certified from the Director of the Office of Management and Budget, who shall include it in the General Budget of the Commonwealth for the next fiscal year. The Legislature of Puerto Rico is authorized but not legally required to appropriate such sum.

9. The Bonds do not constitute a debt of the Commonwealth or of any of its municipalities or other political subdivisions, other than the Agency, and neither the Commonwealth nor any of such municipalities or other political subdivisions, other than the Agency, shall be liable thereon. The good faith, credit and unlimited taxing power of each municipality are, however, pledged to the payment of its municipal bonds which secure the Bonds.

10. Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the 1997 Series A Bonds is not includable in gross income for federal income tax purposes, and (ii) the 1997 Series A Bonds and the interest thereof are exempt from state, Commonwealth and local income taxation.

Interest on the 1997 Series A Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the 1997 Series A Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is not included in gross income.

The Agency and the issuers of the municipal bonds purchased and held by the Trustee have covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth, so that interest on the 1997 Series A Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the 1997 Series A Bonds. We are not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Agency and said issuers from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Brown & Wood LLP"]

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BROWN & WOOD LLP

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May __, 1997

PUERTO RICO MUNICIPAL FINANCE AGENCY
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 29 of the Legislature of Puerto Rico, approved June 30, 1972, as amended (the "Act"), creating Puerto Rico Municipal Finance Agency (the "Agency"), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth").

We have also examined certified copies of the proceedings of the Board of Directors of the Agency authorizing the execution and delivery of a Trust Indenture, dated as of April 1, 1997 (the "Trust Indenture"), by and between the Agency and Banco Santander Puerto Rico, trustee (the "Trustee"), and other proofs submitted relative to the authorization, issuance and sale of the following described bonds (the "1997 Series B Bonds")

$51,925,000

PUERTO RICO MUNICIPAL FINANCE AGENCY

1997 SERIES B REFUNDING BONDS
Dated: April 1, 1997.

Maturing in such principal amounts and subject to redemption, all as set forth in the Trust Indenture, and bearing interest at the rates set forth in the resolution of the Agency awarding the Bonds.

The proceeds of the 1997 Series B Bonds are to be used, with other available moneys, to refund all of the Agency's outstanding 1988 Series A Bonds and to defease the trust indenture under which said 1988 Series A Bonds were issued.

Pursuant to the Trust Indenture, the Agency is authorized to issue additional series of bonds from time to time upon the terms and conditions set forth therein, and any such bonds will be on a parity with the 1997 Series B Bonds and all other bonds issued under the Trust Indenture (all such additional series of bonds together with the 1997 Series B Bonds being herein collectively called the "Bonds").

The principal of and the interest on the 1997 Series B Bonds and all other bonds issued by the Agency under the Trust Indenture are payable from payments of principal of and interest on the municipal bonds purchased and held by and pledged to the Trustee and other funds of the Agency available therefor, as provided in the Trust Indenture.

We have also examined one of the 1997 Series B Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

3. As authorized by the Act and by said proceedings, the Trust Indenture has been duly executed and delivered and contains reasonable and sufficient covenants and provisions in accordance with law with respect to the payments of principal of and interest on the municipal bonds purchased by the Trustee, the conservation and application of all funds, the safeguarding of moneys on hand or on deposit and the rights and remedies of the Trustee and the holders of the Bonds.

4. The 1997 Series B Bonds have been duly authorized and issued, among other things, to provide funds, with other available moneys, to refund said 1988 Series A Bonds.

5. The 1997 Series B Bonds are valid and binding obligations of the Agency, payable from funds of the Agency, including, but without limitation, (i) payments of principal of and interest on municipal bonds purchased by the Trustee, (ii) moneys in and investment income on the Reserve Account and the Acquisition Fund established under the Trust Indenture held by the Trustee, (iii) the proceeds of the sale of any such municipal bonds and (iv) any moneys appropriated or transferred to the Agency by the Commonwealth pursuant to the Act. The Trust Indenture provides for the creation of a special fund designated "Puerto Rico Municipal Finance Agency Series 1997 Interest and Sinking Fund" (herein called the "Sinking Fund") and for the payment into said special fund of a sufficient amount of the payments of principal of and interest on municipal bonds purchased by the Trustee on behalf of the Agency and moneys available in the Reserve Account in the Sinking Fund to pay the principal of and interest on all Bonds issued under the Trust Indenture as the same become due and payable, which fund is pledged to and charged with the payment of the principal of and interest on all Bonds issued under the Trust Indenture.

6. The 1997 Series B Bonds, together with all other bonds issued by the Agency under the Trust Indenture, are additionally secured by a pledge and assignment of all municipal bonds purchased by the Trustee pursuant to the Trust Indenture and all payments of principal and interest made in respect of any municipal bonds so purchased.

7. The Agency in the Trust Indenture has validly covenanted and will be legally obligated diligently to enforce and take all reasonable steps, actions and proceedings for the enforcement of the terms, covenants and conditions of all municipal bonds purchased by the Trustee on behalf of the Agency, including the prompt collection, and the giving of notice to the Secretary of the Treasury of the Commonwealth (the "Secretary") of any failure or default of any municipality in the payment, of the principal of and the interest on such municipal bonds.

8. The Agency is authorized and under the Trust Indenture has covenanted to cause to be made by its President and delivered to the Secretary annually, on or before December 1, his certificate as provided for by the Act, stating the sum, if any, required to restore the Reserve Account to an amount equal to the Required Debt Service Reserve. The sum or sums so certified are required to be apportioned and paid to the Agency from any available or uncommitted funds in the General Fund of the Commonwealth during the then current fiscal year of the Commonwealth. Such apportionment does not require legislative action. If there are no such available or uncommitted funds, the Secretary is required to request the amount so certified from the Director of the Office of Management and Budget, who shall include it in the General Budget of the Commonwealth for the next fiscal year. The Legislature of Puerto Rico is authorized but not legally required to appropriate such sum.

9. The Bonds do not constitute a debt of the Commonwealth or of any of its municipalities or other political subdivisions, other than the Agency, and neither the Commonwealth nor any of such municipalities or other political subdivisions, other than the Agency, shall be liable thereon. The good faith, credit and unlimited taxing power of each municipality are, however, pledged to the payment of its municipal bonds which secure the Bonds.

10. Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the 1997 Series B Bonds is not includable in gross income for federal income tax purposes, and (ii) the 1997 Series B Bonds and the interest thereof are exempt from state, Commonwealth and local income taxation.

Interest on the 1997 Series B Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the 1997 Series B Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is not included in gross income.

The Agency and the issuers of the municipal bonds purchased and held by the Trustee have covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth, so that interest on the 1997 Series B Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the 1997 Series B Bonds. We are not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Agency and said issuers from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Brown & Wood LLP"]

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

_____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

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